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EXTENDING INTERNATIONAL TRADING RULES TO AGRICULTURE

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

NOVEMBER 3, 1989

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CONTENTS

OPENING STATEMENTS

Page

Baucus, Hon. Max, a U.S. Senator from Montana, chairman of the subcommittee 1
Daschle, Hon. Tom, a U.S. Senator from South Dakota 10

COMMITTEE PRESS RELEASE

Finance Subcommittee on Trade To Hold Hearing on Agricultural Negotiations 1

ADMINISTRATION WITNESSES

Katz, Hon. Julius, Ambassador, Deputy U.S. Trade Representative 4
O'Mara, Charles Joseph, Assistant Administrator, International Trade Policy, Foreign Agricultural Service, U.S. Department of Agriculture 6

PUBLIC WITNESSES

Josserand, Robert D., president, National Cattlemen's Association, Hereford TX, accompanied by Tom M. Cook, director, industry affairs 20
Wyckoff, Reggie, president, National Association of Wheat Growers, Genoa, CO 21
Caffey, C. Ronald, director, raw materials, Uncle Ben's Inc., testifying on benalf of the Rice Millers' Association, Houston, TX 22
Ravnholt, Eiler C., vice president and Washington representative, Hawaiian Sugar Planters Association, testifying on behalf of the U.S. Sugar Cane Growers and Processors, and the U.S. Sugar Beet Growers and Processors, Washington, DC 24
McCoy, Steven A., president, North American Export Grain Association, Washington, DC 27

APPENDIX

Alphabetical Listing and Material Submitted

Baucus, Hon. Max:
Opening statement 1
Prepared statement 33
Caffey, C. Ronald:
Testimony 22
Prepared statement 34
Daschle, Hon. Tom:
Opening statement 10
Josserand, Robert D.:
Testimony 20
Prepared statement 37
Katz, Hon. Julius:
Testimony 4
Prepared statement 38
McCoy, Steven A.:
Testimony 27
Prepared statement 39

Page

O'Mara, Charles Joseph:
Testimony 6
Prepared statement 41
Ravnholt, Eiler C.:
Testimony 24
Prepared statement 44
Wyckoff, Reggie:
Testimony 21
Prepared statement 48

COMMUNICATIONS

Amercian Meat Institute 50
Blue Diamond Growers 53
California Cling Peach Advisory Board 58
Sweetener Users Association 99
Welch Foods, Inc. 100

EXTENDING INTERNATIONAL TRADING RULES TO AGRICULTURE

FRIDAY, NOVEMBER 3, 1989

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 11:36 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senator Daschle.

[The press release announcing the hearing follows:]

[Press Release No. H-49, October 5, 1989]

FINANCE SUBCOMMITTEE ON TRADE TO HOLD HEARING ON AGRICULTURAL NEGOTIATIONS

WASHINGTON, DC—Senator Max Baucus (D., Montana), Chairman, announced Thursday the Subcommittee on International Trade will hold a hearing on the administration's efforts to extend international trading rules to agriculture in the Uruguay Round of GATT negotiations.

The hearing is scheduled for Friday, November 3, 1989 at 10 a.m. in Room SD-215 of the Dirksen Senate Office Building.

Senator Baucus and Subcommittee Member David Boren (D., Oklahoma), will this week introduce legislation to open foreign markets to U.S. agricultural exports using Section 301 of the Trade Act and to subsidize U.S. agricultural exports if the current negotiations fail. The purpose of this legislation is to strengthen the hand of U.S. negotiators while insuring that American farmers' interests are protected.

"These negotiations are critical to American farmers. American agriculture is increasingly dependent upon exports. In 1988, the United States exported $35.3 billion worth of agricultural products. One in every three acres of America's cropland raises crops for export. America exports about 75% of its wheat crop and 40% of its soybean crop as well as substantial amounts of beef, corn, rice, cotton, and many other agricultural products. Continued strong agricultural exports are essential if America is to eliminate its mammoth trade deficit," Baucus said.

"A good agricultural trade agreement could be a bonanza for American farmers. But a bad agreement could spell economic ruin," Baucus said.

The purpose of this hearing is to review progress made to date with negotiators and impress upon them Congressional concerns regarding the negotiations. Steps that could be taken if the negotiations fail will also be explored.

Senator Boren—who chairs the Senate Agriculture Committee's Subcommittee on Domestic and Foreign Marketing and Product Promotion—also plans to hold hearings on this topic before his Subcommittee.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN OF THE SUBCOMMITTEE

Senator BAUCUS. The hearing will come to order.

As chairman of this subcommittee, I would like to begin by saying that I strongly support the underlying principles of the

United States' proposal to eliminate agricultural trade barriers worldwide.

In most years, the United States is the world's No. 1 agricultural exporter. Last year, for example, the United States exported about 75 percent of its wheat crop, 40 percent of its soybean crop, as well as significant quantities of rice, beef, corn, and many other commodities.

In my State of Montana, more than 85 percent of the wheat crop normally goes for export, as does a growing percentage of beef. Nationally, more than one out of every three cultivated acres raises crops for export. In other nations like the European Community, Japan, and Korea, if they were to eliminate their trade barriers, U.S. agricultural exports to those countries could skyrocket.

For instance, the 1989 national trade estimate stated that elimination of European agricultural trade barriers would result in a $7 billion improvement in the U.S. trade balance. On a level playing field, American farmers would, therefore, prosper. That is why Senator Boren and I recently introduced S. 1746.

This legislation would require the administration to use Section 301 in various agricultural export programs to protect the United States' interest if GATT talks break down. It is intended to send a strong message to our trading partners that the United States is serious about agricultural trade, and to strengthen the hands of our negotiators.

That said, I do have some concerns about the administration's most recent negotiating proposal. From the perspective of my constituents, this is the most difficult trade negotiation the United States has ever engaged in. A good agreement could be a bonanza for American farmers, but a bad agreement could be an economic disaster. Literally every word of an agreement is potentially critical.

If the administration is going to conclude an agreement that Congress can support, consultations with Congress must be an integral part of these negotiations. Too often, consultations have been a matter of sending the Congress a press release an hour before it is released. This is certainly not what Congress has in mind when we write consultation requirements into the U.S. trade laws.

The situation, however, has recently improved. Ambassador Hills deserves praise for making an extra effort to consult with Congress and take our advice on contentious issues.

With regard to the agricultural negotiations in the Uruguay Round, consultations have meant informing Congress of administration proposals in advance and allowing members and staff to observe negotiations. Unfortunately, the communication has been essentially one-way; I have seen little willingness on the part of the administration to take congressional suggestions. This is not satisfactory. If the administration is not willing to take our suggestions, they could have serious difficulties in getting an agreement approved by the Congress.

In that regard, I have two comments I want to particularly impress upon the administration:

First, the administration should adopt a tougher, more American negotiating posture. The administration's proposals in agriculture seem to be driven as much by an ideological, textbook commitment

to free trade as by a desire to improve the position of U.S. agriculture.

There was a time when the United States could lead the world by example in trade policy. The United States could afford to concede more than other nations and to grant concessions to benefit other nations while gaining little in return; but those times are gone.

Any trade agreement that the administration brings to the Congress for approval will be judged on whether or not it benefits the United States. The agreement must demonstrate concrete benefits for American farmers, businessmen, and workers.

Happily, as was the case with the United States-Japanese beef and citrus agreement, freer trade typically benefits other nations as well as the United States. But the United States must negotiate with its best interests in mind, not those of Australia, Thailand, or other nations.

The administration could do well to remember that the first GATT agreement was turned down because Congress judged it a threat to American farmers. Congress will be interested in the bottom line, not consistency of principle.

Second, I strongly oppose the portion of the administration's proposal that grants developing countries a waiver from the new rules, at least temporarily.

Last year, then Deputy Secretary McPherson called for an end to special and differential treatment for developing countries in the GATT. He argued compellingly that this concept had outlived its usefulness and is being used by developing countries as an excuse to continue protectionist policies. Yet, we agreed to special treatment for developing nations in order to conclude a mid-term agreement to keep negotiations moving.

There is no sound reason for letting the developing nations play by a special rules in agriculture; many developing nations have highly developed agricultural sectors.

In fact, the developing nations are likely to be clear winners if world agricultural trade is liberalized. Yet, many of them maintain egregious trade barriers: Nigeria bans importation of wheat. Korea, until recently, banned importation of beef and continues to block adoption of GATT recommendations that it phase out its beef quota. Korea also maintains restrictions on a variety of other agricultural products. Brazil and Argentina subsidize soybean exports, and Brazil blocks imports on a number of agricultural products with import licenses, now the subject of a Super 301 investigation. And, unfortunately, the list goes on.

By itself, none of these developing countries represents as large a problem as the EC or Japan, but these nations are the growth markets for U.S. agricultural exports. Allowing developing nations to retain their restrictions and subsidies while the developed countries phase theirs out denies American farmers a level playing field. The principle of special treatment for developing nations simply has no place in a GATT agreement on agriculture.

With all of the above said, I want to reiterate: I support the principle of free trade. We have a tendency to think of computer manufacturers and other high-technology industries as America's world-class competitive industries. Those industries are world-class com-

petitors, but the United States' most consistent winner, by far, has been agriculture.

In the modern era, the United States has always run a large surplus in agricultural trade. The United States is blessed with ideal soil and weather conditions, as well as a diverse and highly skilled agricultural sector.

American farmers will always be a world-class competitor. Thus, we have a considerable amount to gain from a strong agricultural trade agreement, but we are not desperate for such an agreement. If we cannot negotiate an adequate agreement, the United States can and will go it alone by using Section 301, export enhancement, and marketing loans, and Senator Boren and I introduced S. 1746 to remind our trading partners of this fact.

I urge the administration to continue to negotiate, negotiate hard, but please take note of the comments I have made this morning.

[The prepared statement of Senator Baucus appears in the appendix.]

Senator BAUCUS. I would now like to turn to our panels.

Our first panel consists of Hon. Julius Katz, Ambassador, Deputy U.S. Trade Representative; and Mr. Charles O'Mara, Assistant Administrator with the Foreign Agricultural Service.

Ambassador Katz, why don't you proceed?

STATEMENT OF HON. JULIUS L. KATZ, AMBASSADOR, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador KATZ. Thank you, Mr. Chairman.

I have a brief statement that I would like to read, if I may.

Senator BAUCUS. Yes. Absolutely.

Ambassador KATZ. Thank you for your invitation to discuss the U.S. proposal on agriculture in the Uruguay Round multilateral trade negotiations.

As you know, Under Secretary of Agriculture, Richard Crowder, and I led a delegation to the Uruguay Round negotiating group in Geneva last week. At that time we presented to the negotiating group a comprehensive proposal on how to build a freer and fairer international agricultural trading system. We receive encouraging support for that proposal from most of the delegations there, and the proposal has, we believe, provided a spark to these critically important negotiations, negotiations which will intensify in the weeks and months ahead.

Agriculture is one of the 15 issues being negotiated in the Uruguay Round, but I think it is clear that the success of the entire round of negotiations will depend on the ability of the negotiating partners to agree on an acceptable agricultural package.

Previous rounds of negotiations failed to address agriculture in a meaningful way because of political difficulties involved, and those failures have compounded the problems that we now face in this sector.

We are at a point now where we cannot merely adjust at the margins of the problem; we need to address the agricultural trading system in a fundamental way and achieve fundamental reform.

The U.S. proposal envisages that the policy reforms should be carried out over a period of time in a coordinated fashion within the context of multilateral commitments made in the Uruguay Round negotiations. We believe that the current round offers an exceptional opportunity to reverse the course we have been on, which involves skyrocketing costs and enormous economic inefficiencies which are associated with present farm support programs everywhere in the world.

We have emphasized repeatedly to our trading partners that, while we are convinced that reform is in our mutual interests, we will not begin the difficult process of modifying our policies until all other countries are prepared to do the same.

Now, the text of our proposal has been made public, and I will summarize it just in very brief terms. Mr. O'Mara, I think, will want to go into some more detail; but, basically, the concept in our approach deals with four key areas:

One is market access, and we propose that all barriers, tariff and non-tariff barriers, be converted to a tariff system—this is our so-called "tariffication proposal"—and that substantial reductions in the tariffs would be made over a period of 10 years, to bring us to nil or very low duties. We would propose to use tariff rate quotas, where tariffs would be at exceptionally high or prohibitive levels, as a transition device.

The second area deals with export competition, and here we propose very simply that all export subsidies be phased out over a period of 5 years. Export restrictions would similarly be prohibited.

The internal support area is the most difficult and most controversial of our proposals.

Senator BAUCUS. You just got started, Mr. Ambassador. I want to give you a few more minutes, so you can comprehensively and fully make your statement. So, disregard that yellow light there.

Ambassador KATZ. All right. Thank you.

The third element of our proposal deals with internal support measures. We propose, basically, that these be addressed in three ways: Those measures which are most trade-distorted would be phased out and prohibited; a second area, which is less distortive and perhaps more ambiguous, would be subject to GATT rules and disciplines; and a third area, which involves measures that have minimal impact on trade, which are generally applicable measures, would be permitted to continue, so long as they meet those criteria.

And the fourth element of our proposal deals with sanitary and phytosanitary regulations, to assure that those are internationally consistent and based on scientific criteria.

Our objective is to create a global environment in which agricultural producers would be free to compete on the basis of their ability to produce quality products at competitive prices. We are convinced that our producers in the United States, who are the most competitive in the world, would prosper under those conditions.

Now, the proposal we presented covers all aspects which we think are essential to meaningful agricultural reform. It is the first proposal of a comprehensive nature that has been presented in the agricultural negotiating group. In the next 2 months we expect that there will be other proposals, introduced by other countries or groups; the Cairns Group will probably put a in a proposal at the

end of this month; the Community, either at the end of this month or in December; and beginning next year, we expect that the negotiations will get underway in a serious fashion.

We think that this is one of the most important issues in the negotiations. I accept your statement, Mr. Chairman, about the need to consult. We feel that we have consulted both with this committee and with the agriculture committees on both sides. We accept the statement you made on the importance of this to American export interests, and we look forward to continuing our consultations with you as we proceed in the negotiations.

I would be happy to answer any of your questions.

Senator BAUCUS. Thank you, Mr. Ambassador.

Mr. O'Mara?

[The prepared statement of Ambassador Katz appears in the appendix.]

STATEMENT OF CHARLES JOSEPH O'MARA, ASSISTANT ADMINISTRATOR, INTERNATIONAL TRADE POLICY, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. O'MARA. Thank you, Mr. Chairman.

I have a very long statement; but, if you will permit me, I will try to summarize it.

Senator BAUCUS. I have given each of you 7½ minutes, so if you could constrain yourself to 7½, I would appreciate it.

Mr. O'MARA. I think I can do that, Senator.

Senator BAUCUS. And your full statement will be in the record.

Mr. O'MARA. Thank you.

Mr. Chairman, I appreciate the opportunity today to provide you and the other members of the subcommittee the Department of Agriculture's views on the administration's efforts to extend international trading rules to agriculture in the Uruguay Round trade negotiations.

As you know, an important strength to U.S. agriculture is our competitive ability to market products abroad. However, our ability to do that has been threatened by the proliferation of trade-distorting agricultural policies around the world.

The policies employed run the gamut from quotas to export subsidies to import restrictions disguised as health barriers. No country has the ability to bring about a reform of these practices alone. Also, because one type of trade-distorting policy may be used to replace another, reforms must be broad-based. This is why the United States submitted a comprehensive proposal on agriculture in the Uruguay Round covering all aspects essential to the agricultural negotiations: import access, export competition, internal support, and sanitary and phytosanitary measures.

The U.S. proposal would substantially and progressively reduce all trade-distorting measures on a multilateral basis, while still giving farmers time to adjust to market forces and governments the flexibility to continue to provide income supports and other safety nets for farmers.

In our view, any agreement on agricultural trade reform must contain these elements; that is, reform must be substantial, the agreement must be multilateral, the adjustment should be gradual,

and the agreement should provide a means for governments to support farmers in ways that do not distort trade.

Our proposal submitted last week in Geneva is aimed at the broad range of policies that distort agricultural trade. It provides a clear vision for the future on how governments should support agriculture. The proposal calls for improved and strengthened GATT rules and disciplines in all areas to guide production and trade toward a market-oriented system and to minimize trade distortions. It does not call for the elimination of support to any nation's farmers, including our own, but rather for a redirection of policies so that trade-distorting effects are minimized. The orientation is toward market signal responsiveness, protection of farm income, and away from programs that inhibit market growth.

Since Ambassador Katz has outlined our proposal and since, as he pointed out, it has been available to the committee and publicly now for several weeks, I don't think I will take any more time to elaborate on it now; but let me make a few more points, if you don't mind, Mr. Chairman.

The global reduction in trade-distorting policies would allow U.S. farmers to exercise their entrepreneurial skills and make production decisions based on market forces rather than government programs. It would allow U.S. agriculture to exploit its comparative advantage and increase exports, and you pointed out in your statement how important that is to our agricultural industry.

Based on estimates by the Department's economic research service, U.S. agricultural exports would be significantly greater, the U.S. market share for grains would improve, and exports of higher valued livestock and meat products would increase.

A recent study by the Economic Research Service using 1986 as a base year estimated economic gains at $10 billion per annum for the United States, and this, Mr. Chairman, I would point out is a minimum estimate; we now have an analysis underway that will expand upon work already done in the Department, which we will be pleased to share with the subcommittee when that it is complete.

Finally, I think it is important to note that the proposal we presented in Geneva last week is one that will make agriculture a grown industry, bringing about an opportunity that does not now exist and can only be achieved through multilateral negotiations. It is a proposal that will bring about this change in all countries over a period of time, and it is one that will allow for the support of foreign income in ways that minimize trade distortion. And I would underline again, our proposal does not call for the elimination of foreign income support.

The principles that will guide us through this process are the following: Equitable treatment for U.S. producers; we will not unilaterally disarm, nor will agriculture be traded away for other sectors of our economy; and we will continue to operate programs such as the EET aggressively to maintain U.S. competitiveness as we proceed in Geneva; and finally, we will keep an open line of communications—that is, consultations with Congress and U.S. farm and commodity groups—as the negotiation proceeds.

Thank you, sir. That concludes my statement.

[The prepared statement of Mr. O'Mara appears in the appendix.]

Senator BAUCUS. Thank you, gentlemen.

Before I begin with a couple of questions about the GATT, I would like to turn to the administration's negotiations with respect to Korean beef restrictions.

Frankly, I am a bit distressed with the recent statements by the country of Korea with respect to its practices on limiting foreign beef into Korea.

As we know, in 1985 Korea completely banned the importation of beef. Recently Korea has relaxed those restrictions, but only slightly. The GATT has ruled that Korea is in violation, and the administration is now negotiating with Korea.

You know, trade is a two-way street; we take Korean Hundais, and I think it is only fair, therefore, that Korea take American beef.

I trust that by November 22, if there is not a successful agreement with Korea wherein Korea virtually completely opens up its country to foreign beef, that the administration will take appropriate action under our trade laws. I would like to get that reassurance now, if I could, Mr. Ambassador.

Ambassador KATZ. Mr. Chairman, this is a subject on which we have pressed Korea very hard, and we expect that two things will happen at the next council meeting: We expect that Korea will disinvoke its balance of payments exception; and, second, we expect that they will agree to the reports of the panel dealing with their restrictions on beef. So we expect that we shortly will be able to report progress in this area.

Senator BAUCUS. But the deadline, still, is November 22 under our trade laws.

Ambassador KATZ. The council meeting, I believe, is the seventh of November.

Senator BAUCUS. All right. Thank you.

I would like to know, in your judgment, what actions we can take—that is, the administration, and particularly the Congress—to keep the pressure on our trading partners so that we do reach a successful agricultural agreement in the GATT—that is, one where all countries do mutually, fairly, even-handedly reduce their protectionist agricultural practices.

The EEP certainly has helped, I think, bring the European Community to the table, and the marketing of loans probably helped. What are measures that this country can take to help bring our trading partners to the table and help encourage them to reach an agreement?

Ambassador KATZ. Mr. Chairman, as I have indicated, we are now on the eve of the most intensive phase of the negotiations. Within the next 6 months I expect the crunch will develop. We have made our position very clear in the negotiations that agricultural reform is a prerequisite of a successful outcome, not only for agriculture but for the negotiations as a whole.

We think that we have in the negotiations adequate negotiating leverage. We have a certain amount of confidence about our negotiating skill. And I would have to say, with respect, that I don't

think we need more pressure. I think we are well positioned to carry out our objectives in the negotiations.

Senator BAUCUS. What about the bill that Senator Boren and I introduced? It seems to me that would help—that is, a bill under which if we do not reach a successful conclusion by, say, mid-February of 1991, that the U.S. Government has the authority to proceed under Section 301 in export enhancement, in other marketing loan provisions, to help protect American interests?

Ambassador KATZ. Well, so far as I know, we have not been asked by the administration to take a position on the bill, and we have not arrived at a coordinated position. So the view I am going to express is my own view, and it is a preliminary view. But I would have to say, with respect, that I think the bill is unnecessary, and I think, if anything, it is likely to complicate our negotiations.

I know that you are offering this in the spirit of wanting to assist us and to help us; but, as I have just said, we are entering into an important and somewhat delicate stage in the negotiation, and I don't think pressure of this kind is productive. It could have and I think is likely to have a negative effect.

Mr. Chairman, I also should say we do have existing authority in the 1988 trade legislation to carry out programs like this, should that be desirable or necessary.

So I think this bill, to my mind, offers nothing additional, but I think its timing could be less than helpful.

Senator BAUCUS. But hasn't Section 301 helped open markets, actually? That tool has been there, and it has been used—it has opened markets.

Ambassador KATZ. It has. Yes, sir, it has. But it is also something that I think needs to be used with a certain amount of skill and precision, which is what we have tried to do, rather than as a blunt instrument.

Senator BAUCUS. It just extends the administration's authority under Section 301; under the bill, the administration would still have the authority to implement the provision in the way the administration would think is the most appropriate.

In addition to that, the fact is, since we are a non-parliamentary form of government, I would think that you as one of our chief negotiators from the Executive Branch would like to point to your counterparts and point out what the Congress—another co-equal branch of the Government of the United States—may or may not do, depending upon the results of the negotiations.

Based upon my experience, frankly, countries do not altruistically give trade benefits to other countries; countries only give trade benefits to other countries when in effect they are forced to realize it is in their long-term best interests, because, if they don't, they face a worse alternative.

I think that the specter of that legislation is going to help you. It will not be implemented in a way that is unfair, and I think that your ability to point to it would help you as you negotiate.

Ambassador KATZ. Mr. Chairman, I think negotiations are most successful when they can bring together common interests and mutual interests. I think you are absolutely right that countries do not agree altruistically to grant concessions; they do so when they

perceive it is in their interests. And the task in negotiating is to find those linkages and those intersections between interests.

We think our agricultural proposal does that. We think it meets the largest interests not only of the United States but of our trading partners. We think it will put agriculture on a more competitive, more viable, more efficient basis, in which all of the participants in the negotiations will benefit, and we think that that is more likely to succeed than by hurling thunderbolts.

They are under no illusions about the view of the Congress or the view of the administration should the negotiations fail. So I think we are adequately armed as we go into this critical phase.

Senator BAUCUS. My time has expired.

Senator Daschle?

OPENING STATEMENT OF HON. TOM DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman.

Ever since I have been in the Congress, either in the House or the Senate, I've found myself participating in debates where one group or another is always advocating getting government out of agriculture, and now it appears that this has taken on an international dimension. Getting government out of agriculture—I think that is really how this issue is being framed.

But getting government out of agriculture without any assurances that agriculture will be a beneficiary of far-sighted governmental policies, is something that concerns a lot of small farmers in particular in my State and throughout the Upper Midwest.

Increasingly, I guess, I would have to tell both of our witnesses, this whole issue, this whole Uruguay Round, is becoming increasingly disconcerting to these farmers. They see it as just another effort to get government out of agriculture without first having thought ahead to what the next step will be. They see studies like the one that came out of the Department of Agriculture in August of 1989 entitled, "The Economic Implications of Agricultural Policy Reforms In Industrial Market Economies." I am sure, Mr. O'Mara, you are familiar with the report's forecast that we will see, if this is enacted, a 44-percent reduction in producer prices in the case of wheat; in dairy products, a 15-percent reduction in price; in coarse grains, a 33-percent reduction in price.

This has extraordinary ramifications if you are a farmer sitting in South Dakota trying to decide today whether or not the Uruguay Round is something good. I hope that you will use opportunities like this to ease their minds and put their concerns to rest.

My own view is that the jury is still out. I have been reserved in criticizing the effort. I have tried to be supportive, yet I must say I am somewhat skeptical about some of this activity, and soon I will be at a point where I am going to have to make a decision on whether or not I become much more assertive, either in support or in opposition.

I must tell you, however, I too need to be more confident that studies like this have another side. Otherwise, how can anyone advocating negotiating positions for the United States be in support of an effort that will reduce the price of wheat by 44 percent and

the productivity of wheat by 6 percent, according to the USTA's figures?

In the case of the study quoted in the Economic Review in May of 1989, which indicates that U.S. agricultural commodities on an annual basis could lose $5.5 billion, how can you tell an agricultural Senator like the Chairman or me that, in spite of these pretty dour forecasts, this is something that we can be enthusiastic about?

Ambassador KATZ. Senator, let me just make a brief comment, then I am going to ask Mr. O'Mara to address the specifics of that.

You know, when we talk about getting the government out of agriculture, I think we are speaking figuratively and maybe with a certain amount of hyperbole. I don't think that our proposal literally involves getting government out of agriculture; but it certainly involves changing that role and limiting it drastically from what it is now. But there are a number of elements where government would remain involved: There is a safety net which is involved in this, there are safeguard provisions.

But I would also say that the figures you have presented—I don't known what the report is, and, as I say, I would let Mr. O'Mara address it—but the research that I have seen, and that to some extent Mr. O'Mara quoted in his opening remarks—show very different results.

Joe?

Mr. O'MARA. Senator, I have no knowledge of that particular report, but I am sure you will share it with us. I would like to read it and make an assessment. I understand your point, and I think your concerns are ones that we need to be responsive to.

In fact, it is very difficult for me, as the Chairman pointed out earlier, to think that, if we focus on the removal of trade-distortive subsidies, U.S. agriculture doesn't gain. I mean, we see what has happened in Japan in just the early stages of the implementation of the beef agreement. The market has responded, and our producers have been successful. It is very hard for me to understand, if you look in the situation at the European Community, why the outcome would not be similar. I unfortunately don't have the numbers here today, but I would be happy to supply them.

[The following information was subsequently received for the record:]

Question. How can anyone advocating positions for the United States be in support of an effort that will reduce the price of wheat by 44 percent and the productivity of wheat by 6 percent, according to the USDA's figures?

Answer. The figures that are being quoted are contained in the report entitled "How to level the playing field? An Economic Analysis of Agricultural Policy Reforms in Industrial Market Economies" by Vernon Roningen and Praveen Dixit of the Economic Research Service. This study predicts a post-liberalization wheat price 44 percent below the current *target* price for wheat. Market prices for wheat, according to the study, would rise.

It is important to keep the results of a report like this in the context with which it was developed. As the Note of Caution in the front of the report indicates

> ". . . this analysis is interpreted as instantaneous removal of all forms of support (all assumed to be equally distorting) to agriculture and therefore is not an accurate representation of any of the proposals before the GATT. No proposal tabled at the GATT calls for the elimination of all support to agriculture or all agricultural programs. Rather, the proposals concentrate on reforming country policies to remove, over time, those policies which are trade-distorting."

There are fundamental assumptions that were made in this report, and other such liberalization models, that are necessary to make the inputs in these models fit the

model parameters. Inevitably, these assumptions differ significantly from the positions taken by the United States in the negotiations and, to a certain extent, from real-world circumstances. The results of the study should be analyzed in this light. Some key assumptions in this analysis include:

(1) a 1986 base year (the year in which prices were at their lowest and government outlays at their peak);

(2) instantaneous liberalization (the United States has proposed a 10 year transition period to ease the shocks that might be felt from instantaneous change);

(3) no developing country participation in liberalization (the U.S. position is that all countries, including developing countries, should participate in the liberalization process);

(4) low demand elasticities; and

(5) low trade gains (trade adjusts only as a residual as other factors change).

Also for simplicity's sake, the study ignores the dynamic effects of liberalization—such as income growth in developing countries and increased productivity and efficiency due to reduced distortions and improved resource allocations—and other dynamic factors such as population growth.

Even with these assumptions and the limited scope of the study, there are some very positive conclusions. To cite passages from the study:

—"Liberalizing agricultural policies in all industrial economies would, on average, increase world agricultural prices by 22 percent."

—"One would expect liberalization to increase specialization by countries because of their comparative advantage and to increase trade. Indeed, model results indicate that world agricultural trade volumes for most commodities would expand when industrial market economies simultaneously liberalize."

—"The United States would improve its agricultural trade balance by $3 billion, or nearly 25 percent."

—"Global trade value would increase by $18 billion with multilateral liberalization."

—"Because protectionist agricultural policies of industrial countries have encouraged the inefficient use of resources, those economies in the aggregate would gain more than $35 billion annually from multilateral liberalization."

The Administration is confident that multilateral liberalization would yield big benefits for U.S. farmers, and that U.S. proposals to the Uruguay Round GATT negotiations are based on sound economic principles. The overwhelming majority of economic analysis, including the study in question, support this view in general terms. What is important in these studies is not the specific numbers they yield, but the direction they indicate changes will take. It is clear from our analysis that the direction of change would be positive.

If my memory is correct, by the middle seventies we were shipping somewhere between 15 to 20 million metric tons of corn to the European Community, and we ship hardly any corn now to the European Community. Why is that? Because of trade-distortive subsidies protected by the variable levy. And now, of course, I think the European Community is even beginning to export some corn.

The same is beginning to happen in soybeans. Ten or 15 years ago we were the only supplier to the crushing industry in Europe of soybeans. That has changed dramatically, as you no doubt know. Why has that changed? It has changed because subsidies to the level of two to three times the world market price have given the EC the basis to supply an ever-increasing amount of their consumption from their own production.

It seems to me it is logical, if you remove those kinds of barriers—if you reduce the effect of these trade-distorting policies—our people are going to gain. We have the proof-positive of the beef agreement with Japan, and we have history that has shown what has happened in the absence of our not being able to get control of trade-distortive policies.

Senator DASCHLE. Well, I think, Mr. O'Mara, you point out an element of the negotiations that enjoy the support, the broad range of support, of all of the agricultural community.

Ambassador Katz succinctly stated the four objectives, which were market access, export competition, internal support measures, and sanitary measures. I think there is probably broad-based support on three of those four.

The real question is, what do we do with internal support measures? How do we define them, and what do we replace them with—if indeed it is our determination, in the interest of overall international competition, market access, and all the good things we are espousing—to be successful in these negotiations?

My point is very simple, and I am sure I am running out of time. My point is this: You are going to run into greater opposition domestically than you are internationally unless somebody does a better job of explaining to the American producer how dropping internal support measures is in our best interests, and what we are going to do about it afterwards.

Senator BAUCUS. Go ahead, Senator. Continue. Take more time, if you want. It is a point well taken.

Ambassador KATZ. Well, we are under no illusions about the difficulty of selling this proposal, either domestically or internationally. We think we have a lot of support internationally from countries with export interests; but even in those countries, as they confront their domestic measures, they will run into difficulty.

But, Senator, we are at a point where, as I have said, I think we need to confront the problem in fundamental structural terms. Now, it would be very comforting to say, "Well, let's take care of two of those three problems." I link the three problems together; import access, export competition, and internal measures are part of the economics of the industry. The fourth item is the sanitary and phytosanitary, which is really a regulatory problem.

Now if you try to deal with only measures at the border and say, "Well, we want assured access; we want elimination of export subsidies," that will break down unless you can get some discipline over what countries do internally, because if they pursue domestic subsidies, and if those measures result in excess of production, the import commitments are going to break down. They are not going to permit imports when the bins are running over, and they are going to be pressed to dump some of that on the world market. That is what we have seen for 20-30 years now.

Our attempts in the previous negotiations to deal with the problems at the border have just failed. We have not been able to negotiate adequate import-access commitments that are sustainable; we have not been able to negotiate commitments on export competition, which are fair and reasonable; and so, as we have looked at this problem, we have concluded that the only way to deal with it is not at the margin but to deal with it structurally.

Now, I appreciate your point, first of all, that we need to establish how to do that, what the alternative is to our present policies. We think what we have suggested is a sensible and workable approach. But we need to sell that. We need to sell it at home as well as abroad.

Senator DASCHLE. Let me try to respond, for just a minute, and then we can move on, because I am sure this is something that we will continue to have to talk about in a dialogue, rather than in confrontation.

My view is that we have probably got one of the best food-producing systems in the world, at an extraordinarily low cost to the taxpayer today. Two percent of the Federal budget deals directly with agricultural productivity. That is a bargain, I don't care how you look at it. We have one of the lowest costs of food anywhere in the world. That is a bargain to the consumer; it is a bargain to the taxpayer.

We are being asked now to drop that. We are being asked now to hold out the hope that, in spite of what good we have, both in terms of tax dollars as well as in terms of what a consumer pays in the grocery store, that there is something better out there, and that all we have to do is go along with these four points, including dropping what you term "the internal support measures," in the hope that we can even do better than that. That is what you are saying.

I guess you haven't convinced the agricultural producer, by and large, in my State that there is something better out there. And I think it is important, as you go through this, that you keep an eye on what is happening here, because you are going to need, ultimately, for all of us who represent those people to support your efforts, and the jury is still out. It is still out for two other reasons, and then I will stop:

It is out because there are a lot of non-GATT participants who could easily benefit by this. What do we do with them? What do we do with the Soviet Union? What do we do with some of those other countries who could become very significant producers of agriculture, once again, as in some cases they were in the past? What do we do with them? How do we tell our farmers not to worry about those non-participants? That is a concern that I think producers have

Another concern that producers have that you haven't addressed yet is how you define internal support measures? I haven't heard one witness in all of the hearings in which I have participated talk about how they would strip away all of the tax incentives, too, because that is also an internal support measure.

My small farmers can't take advantage of tax incentives very well, but the big ones can. And if you take away "internal support measures"—quote, unquote—and leave the tax incentives, we'll have a real donnybrook on our hands. Then you are really going to see some debate here, in this committee and in the Agriculture Committee.

So I hope, as we go through this process, some of these things will be satisfactorily resolved, and I hope that I can end up supporting it. But I am growing more skeptical, and I am looking for more times like this and perhaps some informal opportunities to talk and resolve these matters; but before I will be convinced that there is something better out there, we have a lot more work to do.

Ambassador KATZ. Senator, I accept your proposal and offer to engage in a dialogue. I really would welcome that. We would like to come up and talk to you collectively or individually.

Senator BAUCUS. That is the point of this hearing, frankly; and, as the Senator said, there will be other hearings. But I would like to follow up on that, and what are the internal measures of domestic subsidies.

You know, I understand there are red lights, and there are yellow lights, and there are green-light proposals, and so forth; but, as Senator Daschle said, the administration really hasn't defined with any specificity how it sees this working; that is, what categories are red lights, what are yellow lights, how long are the yellow light proposals going to stay in existence.

And then that fits in with the Farm Bill. Has the administration talked to the Congress about the red lights that we put in the Farm Bill, or the yellow lights that maybe this committee, as tax measures, or the Finance Committee would deal with? I mean, are you are going to get the support of farmers in the country?

I think Senator Daschle is correct; at least when I talk to farmers, I get the same reaction. They are very skeptical of all of this. And because of the failure, so far, of the administration to talk out the details in this area alone—and there are many other areas—and because of other reasons, I think there is a feeling among American farmers, by and large, that the administration is proposing this agreement partly for ideological reasons, trying to find the perfect world, rather than standing up and articulating and advocating the American farmer's point of view.

You are a trade negotiator for America, not for the world. You are in there fighting for American farmers and American manufacturing industry and services industry, and so forth. You are an American. And there is a sense among American farmers that our trade negotiators are too preoccupied with theory and not sufficiently advocating an American interest point of view. I have to tell you that, because that is how I see it, and that is how they represent it to us.

So I hope very much that we can get the kinds of discussions that Senator Daschle referred to, as well as open formal hearings in place, so that we can find out a little more of what is going on here.

Ambassador KATZ. I would like to be very clear that we are representing the interests of the United States and the interests of the United States' agricultural community. There should be no doubt about that. We are not representing the interests of anyone else.

Second, our proposals are not theoretical, they are very practical. They do not, Senator Daschle, involve the elimination of internal support measures; they involve a restructuring, a change in the direction, a change away from policies which are distortive to ones that, to the extent we can make them, are trade neutral.

Third, we are not proposing that we go cold turkey on the day after the signature of the agreement or the day after the Congress has approved the agreements. We are proposing appropriate transitions, but not to nothing, to measures that are trade-neutral, to the extent we can get them, and which would benefit American farmers and the American economy.

Now, Mr. Chairman, if you like, we could go into the details of this. We haven't just presented a blank check; our proposal goes into quite a lot of detail as to how we would do these conversions, the kinds of measures that we would seek to have eliminated, those that would remain, those that could remain under certain disciplines. They are spelled out in our paper; but if you have time now, we would be glad to go into that, or we could do it subsequently.

Senator BAUCUS. Well, I appreciate the offer, and I think we will have to go into that. But this is a Friday afternoon, and attendance is not great because it is Friday afternoon. I think we will have to schedule some other hearings and other opportunities to do that.

But on that subject, one question comes to my mind, and that is the tariffication of, say, the Meat Import Act. How is that going to work?

As you know, the Meat Import Act has only been triggered maybe once or twice in the last—gosh, what?—10 years, roughly. How are we going to tarify an act that has only been implemented for two different quarters, roughly, in the last 10 years? How is that going to work?

Mr. O'MARA. Well, we wouldn't be able to impose quotas under this proposal, Mr. Chairman.

Senator BAUCUS. The question is, how do you tarify it? The proposal, as I understand it, is to tarify the quotas.

Mr. O'MARA. The proposal is to convert all non-tariff measures to tariffs.

Senator BAUCUS. Correct.

Mr. O'MARA. And within that, at an early stage of the transition period, which we have proposed would be 10 years, that tariff rate quotas be put in place.

Senator BAUCUS. So, how would you tarify the Meat Import Act, which would only have been implemented, as I say, I think a couple of quarters in the last 10 years.

Mr. O'MARA. I don't know for sure how many times. I think it has only been a couple of times. But there have been several times where voluntary restraint agreements have been negotiated in lieu of quotas.

Senator BAUCUS. I think, under the law, that is only because it was about to be triggered.

Mr. O'MARA. Correct.

Senator BAUCUS. So, in effect, it has only been triggered two quarters. How are you going to convert to tarification?

Mr. O'MARA. We would have a formula that would equate the current level of protection that exists under current law into a tariff. I don't have those specifics here with me today. And the proposal would call for the reduction of that level of protection to be reduced over a 10-year period.

Senator BAUCUS. But the question I am driving at is, some years there is no protection at all, and most of the time there is no protection.

Mr. O'MARA. That is true.

Senator BAUCUS. So what is the formula?

Mr. O'MARA. Well, that is a very good question. I don't have an answer for you today.

Senator BAUCUS. And that is why people are a little concerned, frankly, you know?

Ambassador KATZ. Very simply, I don't know that the law wouldn't need to be modified in some respect; but you could deal with the problem, except for the variable nature of the trigger in the law. But if you assumed that it were not variable, if it were a quota or a nominal quota, it would fit into the tariff quota approach.

Senator BAUCUS. But it is counter-cyclical. That is the law.

Ambassador KATZ. Well, that is the law, and it is not excluded—it is far from excluded—that there won't have to be some modifications to our laws coming out of the agreement.

That brings me to a point that I should have made in response to an earlier comment, and that is the relationship of our negotiations to the farm legislation.

We have made it very clear that we are not going to write our 1990 Farm Bill in Geneva. That will be written in the Congress in Washington, DC. It may well be that the agreement which emerges in Geneva, which will not become operative probably until 1992, following ratification by various countries, approval by the Congress, that that may require some changes in U.S. law. And the Meat Import Law conceivably could be one of them, depending on how this works out.

But I think the basic concept in that, involving some limitation of supply for a transition period, with a high tariff, is one that would be a way of dealing with that.

Senator BAUCUS. What should we include in the 1990 Farm Bill?

Ambassador KATZ. I am sorry?

Senator BAUCUS. What provisions should we have in the 1990 Farm Bill?

Ambassador KATZ. I would suggest that nothing in that bill should be guided by our negotiations.

Well, let me turn to Mr. O'Mara, who is closer to the legislation; but I don't think what is happening in Geneva should impact directly what it is that Congress wants to do about farm legislation in 1990.

Senator BAUCUS. Mr. O'Mara?

Mr. O'MARA. Senator, we see the farm bill process and the Uruguay Round process as on two separate tracks. The farm bill process should conclude before the Uruguay Round negotiation, which we expect to occur in December of next year. And then, depending on what the agreement is, depending on how the Congress deals with that agreement, obviously adjustment would be made in subsequent farm bills to fit the transition that was agreed upon in Geneva.

And if you will permit me to go back to your earlier question about the Meat Import Law, I have been ably assisted by my staff.

Senator BAUCUS. Right.

Mr. O'MARA. The fact is, I don't think we would wind up tarifying in this case. Since, as you point out, we have only used the provision in current law two times in the last 10 years or so, what would apply in this particular case is the snap-back safeguard provision that would protect our market, in this case for beef, against import surges.

But, of course, to be perfectly clear, too, at the end of the transition period, if we got this kind of agreement, we could not impose quotas beyond that 10-year period.

Senator BAUCUS. Senator Daschle?

Senator DASCHLE. No questions, Mr. Chairman.

Senator BAUCUS. One other question I have is about developing countries. I mean, some developing countries have very, very spe-

cialized aggressive agricultural sectors. Why should we want to give them special treatment?

Ambassador KATZ. Well, we have made it clear that we would not exempt developing countries from our proposals across the board. On the other hand, where there were special circumstances, that would be taken into account, and perhaps through longer transitions where that was required.

But for developing countries that were competitive producers of particular agricultural commodities, there is no reason why they should be exempted from the agreement.

Senator BAUCUS. Well, I don't understand. What is your definition of "special circumstances"? What is the standard by which you judge in making that determination?

Ambassador KATZ. Well, their general level of development would be one criterion, and their competitiveness in a particular area would be another. A country such as Argentina, which is a competitive producer of grain, should comply right at the outset, as every other country.

Senator BAUCUS. I think, as I said earlier, that times have changed, and that too many of these countries take advantage of the classification "developing country." I think, frankly, it should be the American position, again, to protect American agricultural interests, and I think the administration should take a harder view as to which countries in fact qualify and which countries do not. I think, frankly, we have been unthinking in that regard for the last couple of years.

Ambassador KATZ. I would agree with that. Well, not for the last couple of years; I would say for the last couple of decades, maybe the last two decades.

Now, I would agree with you, Mr. Chairman, that developing countries need to be brought into the system. They need to be a part of the system. We need to make allowances in what I would call "special circumstances," and I can't define that for you at the moment. But we know that there are circumstances where particular countries cannot comply with the rules in particular circumstances. But the notion that there is a general waiver for all countries who regard themselves as "developing countries" is something that would not be acceptable to us.

Mr. O'MARA. Senator, could I add to that statement?

Senator BAUCUS. Yes.

Mr. O'MARA. We have, in fact, submitted a proposal in Geneva—I think it goes back a year or so ago—and we would be happy to share that with you, the paper itself. But I think it follows the reasoning that you were indicating and also Ambassador Katz. It would distinguish among the levels of development in developing countries; and, as Ambassador Katz points out, clearly Argentina is a case where their agricultural sector is very efficient, very highly developed. It provides for the notion, then, of graduation. The special-case situation we would see is applied to a country like Haiti, but certainly not to a country such as Argentina or such as Korea.

Senator BAUCUS. One final point here. What assurances can you give us, if the administration reaches an agreement say in services and intellectual property but not a satisfactory agreement in agriculture, that the administration won't sign the agreement and

therefore sell out agriculture? That is a very real fear that many folks in the agricultural community have.

Ambassador KATZ. We have made it very clear, and we have stated repeatedly, that we cannot bring back an agreement that does not include a critical mass of issues that we regard as important to the United States. Agriculture is the first among those. It is the first.

Senator BAUCUS. Did you say it is the first?

Ambassador KATZ. Well, it is alphabetically the first, but it is——

Senator BAUCUS. Oh, well, that is the question. [Laughter.]

Is it first in priority? First in importance?

Ambassador KATZ. It is very difficult to distinguish between the important issues. We have a number of first priorities; agriculture is certainly among those, and the new areas are among those—services, intellectual property, investment measures is among those, and market access. We have important objectives with regard to market access, not the least of which are in developing countries.

So agriculture is locked solid in that group of essential—I haven't enumerated them all, but agriculture is certainly one of those issues. And we would not be satisfied merely to bring back a superficial agreement, declare a victory, and say we have one. It would have to be qualitatively acceptable as well as merely included in the negotiation. And without that, we have said we can't bring back an agreement, we are prepared to walk away from it.

Senator BAUCUS. I think that is important, because often when parties begin to negotiate, a dynamic begins to arise where there is a very strong imperative to agree just for the sake of an agreement.

That is particularly true, I think, of the United States, because we are the largest economic power, still, in the world, and it is very difficult for the United States to walk away from an agreement. I think other countries know that, and other countries will try to take advantage of that. It is very difficult for the United States to walk away. It is not in our nature. Other countries more easily walk away than does the United States.

Therefore, you as our negotiator have an even greater burden on your shoulders to show to our trading partners and to show to Americans that you will negotiate that much more aggressively to reach a successful agreement, or you will walk away.

I doubt, frankly, that many Americans are convinced that the United States will walk away from an agreement. I hear the words, but I doubt that many Americans believe that.

Mr. O'MARA. Senator, I might point out that within recent memory we did that. We were not able to reach a "quality agreement," as Ambassador Katz referred to, on agriculture in Montreal in December of last year, and therefore we left Montreal without having an agreement on agriculture.

Senator BAUCUS. Well, that was in mid-term; I am talking about the final shooting match, when the final bell rings.

Mr. O'MARA. I know you are, sir.

Ambassador KATZ. I don't know how to persuade people, except you are just going to have to watch us. You know, "Stay tuned for the news at 11."

You know, obviously we would regret not succeeding. We think we have a unique opportunity, and if we do not succeed, it will be a missed opportunity. But as a practical matter, we know that we cannot bring back an agreement that is not satisfactory.

Senator BAUCUS. Thank you very much. I appreciate your testimony.

Ambassador KATZ. Thank you, Mr. Chairman.

Senator BAUCUS. We have to move on here.

Our next panel consists of Mr. Reggie Wyckoff, president of the National Association of Wheat Growers; Mr. Ronald Caffey, director of raw materials for Uncle Ben's, Inc., testifying on behalf of the Rice Millers' Association; Mr. Robert Josserand, President of the National Cattlemen's Association; Mr. Eiler Ravnholt, vice president and Washington representative of the Hawaiian Sugar Planters Association, on behalf of the U.S. Sugar Cane and Sugar Beet Growers and Processors; as well as Mr. Steven McCoy, President, North American Export Grain Association.

Mr. Josserand, I understand you have until 1:15.

Mr. JOSSERAND. I have a flight.

Senator BAUCUS. Well, why don't you proceed first?

Mr. JOSSERAND. Fine.

Senator BAUCUS. Each of you, then, will have 5 minutes.

STATEMENT OF ROBERT D. JOSSERAND, PRESIDENT, NATIONAL CATTLEMEN'S ASSOCIATION, HEREFORD, TX, ACCOMPANIED BY TOM M. COOK, DIRECTOR, INDUSTRY AFFAIRS

Mr. JOSSERAND. Mr. Chairman, I am Bob Josserand, and I am here representing the National Cattlemen's Association. I am a commercial cattle feeder from Hereford, TX.

I want to say how much we appreciate the opportunity to appear today. We have prepared written testimony, and with your kind approval, Mr. Chairman, I would like to submit it for the record and simply make some additional comments as a cattleman. And since you come from a major cattle-producing State, I think you can understand what I am saying.

As you know, Mr. Chairman, and as the subcommittee knows, the United States is the world's largest producer of beef. We are also the world's larger importer of beef. And thanks to you, Mr. Chairman, we are now a major exporter of beef, particularly to Japan.

We are here talking about the export and import business, and I think from the cattlemen's standpoint and the beef producers' standpoint our message is very simple to this committee, and that is, Mr. Chairman, that we know that our meat import law is on the table. We also realize that it has been not used in the past 13 years. The last time, Mr. Chairman, that it was used was in 1976. But we also realize that it has been a criteria to prevent dumping of various products into this country.

We support what the administration is attempting to do in removing trade barriers around the world. However, we, as beef pro-

ducers, Mr. Chairman, without having the assurance that we will always be competing on a level playing field, are very hesitant about our meat import law being laid on the table.

As I say, we are in support of opening the trade barriers around the world. I have just returned from the European Community on behalf of the National Cattlemen's Association. I have seen first-hand what ridiculous trade barriers they have erected on beef in Europe.

We simply are saying to this committee, and to the administration, we are willing to lay on the table the beef import law as soon as we are assured that we are competing on a level playing field, a field in which all of our trading partners are playing by the same rules.

I realize that perhaps the report Senator Daschle was referring to does not bear this out, but we feel that all of agriculture is so competitive, that removing trade barriers will profit all of agriculture, and we certainly do not wish to stand in front of preventing that.

But we do feel like all of agriculture must be operating on a level playing field around the world.

With that, Senator, I would close, unless you have a question for me.

Senator BAUCUS. No, but if I see you get up to leave, I might quickly ask a very quick question.

Mr. JOSSERAND. All right.

[The prepared statement of Mr. Josserand appears in the appendix.]

Senator BAUCUS. Thank you very much.

Next is Mr. Wyckoff.

STATEMENT OF REGGIE WYCKOFF, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, GENOA, CO

Mr. WYCKOFF. Thank you, Mr. Chairman.

I am Reggie Wyckoff, president of the National Association of Wheat Growers. My family and I operate a wheat farm near Genoa, CO, eastern Colorado.

The NAWG firmly believes that a reform of international agriculture trade is needed at this time. We applaud the efforts of the U.S. negotiators in Geneva and Washington for formulating such a comprehensive plan for reform.

Over time, trade-distorting subsidies have resulted in depressed world wheat prices, burdensome supply situations, and heightened trade tensions between allied industrial nations and the developing countries. Clearly, the only way to bring these mechanisms under control is through strengthened GATT disciplines.

The NAWG supports the long-term objective of the Uruguay Round that was reached in April of this year; namely, to achieve substantial progressive reductions in trade-distorting policies. A staged an simultaneous reduction in all agricultural support mechanisms, as outlined in the United States' most recently tabled working plan, seems to be an orderly and equitable means by which to correct and prevent restrictions and distortions that have skewed world agricultural trade.

That said, the NAWG recognizes that a great deal is at stake in the Uruguay Round. Success in the GATT will mean significant changes in the shape of U.S. agriculture and the price support and income protections which have been a part of domestic farming for over half a century.

I will not mislead you, farmers are leery of proposals that promise radical changes. In particular, farmers are skeptical about the concept of decoupling, which, as we see it, would mean giving producers payments that are not tied to production, set-aside, or conservation requirements. There is effectively no support among farmers for this notion.

The administration's proposals are bold; however, it is impossible for farmers to know or to judge how these theoretical changes will affect them, their farming practices, their income, or their future.

Much of what the United States has proposed will prove politically difficult to put into action, both here in the United States and abroad.

We understand that every aspect of the October 25 paper is subject to negotiation. The interests of the U.S. wheat grower, however, are not subject to negotiation. We will only support multilateral liberalization of agriculture trade. U.S. wheat producers need to be assured that their economic stability will not be traded away to achieve someone else's objectives.

World agriculture trade is at a crossroads, and now is not the time to let our vigilance lapse by backing down. The United States has 14 months left to chisel out a workable plan in the GATT to put substantial progressive reductions on course. In that time, the u.S. needs to adopt an aggressive export stance by more fully implementing the export enhancement program. The export enhancement program represents a very powerful export trade policy tool. A strong EEP is the NAWG's best guarantee that other countries will come to the GATT negotiating table in good faith.

Thank you, Mr. Chairman. I would be glad to answer questions at the appropriate time.

[The prepared statement of Mr. Wyckoff appears in the appendix.]

Senator BAUCUS. Thank you, Mr. Wyckoff.

Next we will have Mr. Caffey.

STATEMENT OF C. RONALD CAFFEY, DIRECTOR, RAW MATERIALS, UNCLE BEN'S, INC., TESTIFYING ON BEHALF OF THE RICE MILLERS' ASSOCIATION, HOUSTON, TX

Mr. CAFFEY. Good afternoon, Mr. Chairman.

My name is Ron Caffey. I am director of raw materials for Uncle Ben's, Inc., a Houston, TX based rice milling and marketing company. I am here in my capacity as chairman of the U.S. Rice Millers' Association.

I have submitted a full statement for the record, which I would like at this time to summarize.

The Rice Millers' Association is a trade association for the U.S. rice milling industry. RMA's 25 members consist of independent rice milling companies and farmer-owned cooperatives, with facili-

ties in eight States. There are also 30 associate members of RMA, including major U.S. rice exporters.

Mr. Chairman, the U.S. rice industry has a lot at stake in the Uruguay Round. We commend you for calling this hearing. It is very timely as this negotiation begins its final year. It is also very appropriate coming on the heels of the recent tabling of the U.S. Government proposal for agriculture.

A successful outcome in GATT negotiation is essential, because we believe our industry can prosper in an international trading system characterized by reduced subsidies and increased market access. We are an export-dependent industry. Over the past 5 years an average of 54 percent of our production has been exported, at an average annual value of $700 million.

Sales of our high-quality U.S. rice to a wide-ranging group of markets such as Europe, the Middle East, Canada, Mexico, and South America, among others, attest to the demand for our product. However, we estimate the United States could export an additional $1.2 billion of rice per year if barriers in the European Community, Japan, and South Korea, among others, were removed.

Mr. Chairman, I would like to highlight these barriers for the committee:

The EEC, the Community, is currently an important market for the U.S. rice industry. However, a variable levy and subsidy system combines to limit U.S. rice exports by $100 to $150 million.

Japan: The Japanese totally ban rice imports. If barriers were removed, the rest of the world would stand to provide 3.4 to 4.8 million tons to this 10-million ton market. The United States would emerge as a major supplier, providing 1.6 to 1.8 million tons. This would increase U.S. rice exports 60 to 65 percent, with an annual value of approximately $650 million.

South Korea: The South Koreans also employ an import ban. Lifting it would increase U.S. rice exports by 750 to 1 million tons with an annual value of $350 million.

Mr. Chairman, RMA supports the underlying principles of a United States in the Uruguay Round to eliminate agricultural trade-distorting practices and programs. We believe American agriculture can compete and win markets, given a level playing field in international trade.

However, we agree with the philosophy of the statement Secretary Yeutter made on October 24, 1989. He said at this time, "The United States will never turn our swords into plowshares without other countries doing the same. We will only negotiate changes that have adequate transition periods so farmers will have ample time to adjust."

These two principles—the United States will not unilaterally disarm, and there must be a realistic transition period consistent with the complexity of the changes contemplated—are crucial to development of a sound GATT agreement.

But, Mr. Chairman, there is another question that worries us. That question is: Will a final agreement provide all U.S. industries a competitive opportunity for economic growth and development through improved trade? We believe it must. Therefore, we believe a third basic principle of the Uruguay Round negotiations must be

no trade offs. One sector must not be traded off for another sector. One industry must not be traded off for another industry.

RMA is extremely satisfied with the commitment of our negotiators to this principle. On more than one occasion, Secretary Yeutter, Ambassador Carla Hills, Deputy USTR Jules Katz, and other negotiators have pledged their support for the no trade-offs principle.

Mr. Chairman, as you know, some of our trading partners and GATT members do not consider this principle appropriate. On September 18, 1989, the Japanese Minister of Agriculture indicated Japan's GATT proposal will advocate a policy for "complete self-sufficiency in rice." RMA does not believe this position gives Japan the ability to claim they are being cooperative in the GATT. It is not consistent with the U.S. objective of putting all programs on the negotiating table. Furthermore, it is not consistent with the GATT mid-term agreement for the Round to negotiate "substantial progressive reductions in agricultural support and protection . . . resulting in correcting and preventing restrictions and distortions in world agricultural markets."

The South Korean officials recently indicated their rice market would remain closed indefinitely.

Senator BAUCUS. I am going to have to ask you to summarize, as best you can.

Mr. CAFFEY. That is fine.

To summarize, we hope member countries of the GATT are able to develop an agreement consistent with the U.S. proposal by December 1990. However, as the Round begins its final and most important year, all GATT member countries must know that the U.S. Congress is closely watching the progress of the negotiations.

Thank you, sir.

Senator BAUCUS. Thank you, Mr. Caffey.

[The prepared statement of Mr. Caffey appears in the appendix.]

Senator BAUCUS. Mr. Ravnholt?

STATEMENT OF EILER C. RAVNHOLT, VICE PRESIDENT AND WASHINGTON REPRESENTATIVE, HAWAIIAN SUGAR PLANTERS ASSOCIATION, TESTIFYING ON BEHALF OF THE U.S. SUGAR CANE GROWERS AND PROCESSORS, AND THE U.S. SUGAR BEET GROWERS AND PROCESSORS, WASHINGTON, DC

Mr. RAVNHOLT. Good morning.

Mr. Chairman, my name is Eiler Ravnholt. I am vice president of the Hawaiian Sugar Planters Association, and I am pleased to have this opportunity to appear before you on behalf of the U.S. sugar cane and sugar beet industries.

As average-cost world sugar producers, and as producers receiving an average price for the product of our farms and mills, we believe that in a world of total free trade we should do all right. This belief is based on a number of studies, the most recent on the 1986-1987 crop, which shows that the United States is seventh lowest among 31 beet-producing countries in costs, and 33rd lowest out of 61 raw cane sugar producers around the world.

A lot of the world sugar producers would therefore be forced out, before we are, in a competitive market; and, while some lower-cost

producers may expand, that expansion will come at a somewhat higher cost than their current production. Average prices should, therefore, improve under a total free trade scenario, and certainly the price on the world market, which would then truly be a world market, would be much higher than it has been in recent years.

It was that knowledge and that faith which encouraged us to give our support to the concept of world-wide free trade in agriculture.

Why, then, are we worried? There are a number of reasons, and those concerns have been heightened by some of the economic analysis we have seen lately, as well as by the details of the administration's proposal tabled in Geneva last week. We are concerned that we may not survive the process which the administration has in mind. A new GATT agreement to get rid of trade-distorting agricultural programs, as called for in the administration's proposal, will force the reassessment of our own agricultural support programs and a likely drop in the total level of support for American agriculture.

Currently, farm income is supported through the market and/or with direct payments from the Government to our farmers. Sugar is one of those commodities which has its support totally through the market, with a requirement that the President use all the authorities at his command to assure that the market price remains preferable to forfeiture to the Government of any sugar placed under loan to the Commodity Credit Corporation. Since enactment of the 1985 Food Security Act, it has been so administered.

Senator Daschle referred to a couple of studies by the Department of Agriculture. The results of those studies also concern us greatly. He did not mention what the result was for sugar according to that study, which forecast a 69-percent reduction in the unit return on sugar to U.S. producers and a 42-percent reduction in the quantity produced. For all of American agriculture it showed a 13-percent drop in producer prices and a 1 percent drop in total output.

If you have taken a look at a copy of that study, or the table which I included in my testimony, you will find that the United States is not the biggest loser among farmers in the world; Canadian, EC, Western European, and Japanese farmers would also lose. This study further shows that American sugar producers would lose $900 million a year, and sugar imports would increase by 3.4 million metric tons. That is a very significant cause for concern, with a study that came out of the Trade Analysis Division of ERS in USDA this August.

Also disturbing to sugar producers is the fact that the two biggest importers of sugar in the world, the Soviet Union and China, are not parties to these negotiations and would not be bound by the subsidy or import restraint disciplines that would bind the developed-economy members of the GATT if our proposal is adopted. Those two countries are currently responsible for 30 percent of the world sugar imports. Both are in the process of reforming their agriculture.

China has recently announced planned major increases in commodity prices to spur production. Soviet agriculture is the focus of reform. If Soviet sugar yields were to improve just to half of what

the EC yields are, they would be self-sufficient. Current Soviet yields are only 41 percent of the U.S. average for beet sugar.

A noted French sugar analyst noted last week in a conference in London that the Soviet Union has the ability to become self-sufficient in sugar and even to become a net exporter, and predicted a major drop in Soviet imports.

Our concern about their exclusion from GATT is heightened by an earlier experience: In 1977, the United States was a participant in the International Sugar Agreement. Ambassador Katz was very instrumental in the negotiation of that agreement. It included all of the world's major sugar exporting and importing countries at that time, including the Soviet Union. That agreement sought to stabilize prices and supply. The EC was not a member, and we thought that didn't really matter too much because at that time they were neither a major exporter nor major importer; they were just self-sufficient in sugar. But by 1983, they had become the world's biggest exporter on that world market and had grabbed one-fourth of it.

I see my time has run out. I would only close by saying that we do have very real concerns, not only with the handicaps which I mentioned here but also with the special considerations that the administration's proposal suggests for the developing economies for those exports in which developing countries have a particular interest the administration would accelerate the removal of any import barriers for those commodities. This, obviously, is a threat to sugar, because many of the developing countries are sugar exporters. And Mr. Chairman, I very much appreciate the points you made in your introductory remarks on that.

Senator BAUCUS. Thank you, Mr. Ravnholt.

[The prepared statement of Mr. Ravnholt appears in the appendix.]

Senator BAUCUS. Before I turn to you, Mr. McCoy, Mr. Josserand, how much time do you have?

Mr. JOSSERAND. Senator, I probably need to go. Mr. Cook can remain here and answer any questions.

Senator BAUCUS. All right. Let me ask you just one question, then we will turn to Mr. McCoy.

What is your view of how the administration is handling the Meat Import Act as it tries to tarify all non-tariff barriers. That is, what comments do you have on that?

Mr. JOSSERAND. One of the questions that we listed in our testimony to this committee is our concern that there is no reasonable way to handle tarification of the Meat Import Law. Having been used only in 1976, and having been used more as a detriment to talking to the importing countries, we, quite frankly, have not come up with a solution to that problem.

Senator BAUCUS. So you are advising the administration to do what with respect to tarification of the Meat Import Act?

Mr. JOSSERAND. We don't know, Senator. We do not have a solution to that.

Senator BAUCUS. All right. Well, obviously that is because it is a problem.

Mr. JOSSERAND. Yes, it is. And there is on clear-cut way to approach it that we could figure.

Senator BAUCUS. Thank you very much for helping out.
Mr. JOSSERAND. Thank you, Senator Baucus.
Senator BAUCUS. Mr. McCoy, you are next.

STATEMENT OF STEVEN A. McCOY, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, WASHINGTON, DC

Mr. McCOY. Thank you, Mr. Chairman. It is a pleasure to appear before the committee today.

I appear as a witness for the North American Export Grain Association, which is a national organization of U.S. grain and oil seeds exporting companies and cooperatives.

We are pleased to come here today to indicate our strong support for the administration's current MTN negotiating position announced October 25, and also indicate our confidence in the negotiating team representing the U.S. agricultural interests in the GATT.

The current U.S. agricultural negotiating position in the MTN is just and fair. It deserves the strong support of the U.S. agricultural community. It alone, among proposals presently before the MTN, provides the best opportunity to achieve significant U.S. benefits and maximize global economic welfare in international agricultural trade.

We are aware that the U.S. proposal has been roundly criticized by the EC and Japanese trade officials as extreme and as inconsistent with previous understandings arrived at in earlier rounds of negotiations. We are further aware that internal farm support provisions of the proposal have excited initial controversy among groups concerned about the dismantling of government programs and protections designed to maintain income security in the agricultural sector.

We are not insensitive to such concerns. We recognize the need to maintain income for American farm producers. In our view, such income can and should be provided by the market, without resort to production and trade distorting programs and mechanisms. However, we understand concerns that arise in the context of the need for change, any change, in the global agricultural status quo.

We are less sympathetic about EC and Japanese government reaction to the current U.S. negotiating position.

We do not agree that the current U.S. position reneges on the previous agreement on agriculture arrived at in Geneva in April. Until recently, matters under discussion at the MTN have tended toward the philosophical rather than the practical. With the advent of the U.S. proposal, the agenda seeking practical solutions has been advanced. We look forward to a further development of EC and Japanese proposals to be presented later this year. In the meantime, however, the U.S. proposal should not, in our view, be prejudged absent similar specific remedies which may, or may not, be proposed by our trade competitors.

It is vital that we in the United States maintain a unity of purpose favoring international trade reform. We should not commit to "unilateral disarmament" in the face of continued foreign protectionist or predatory trade policies. On the other hand, neither

should we shirk from exercising our own responsibility to make changes in U.S. policies consistent with improving the overall global trade picture.

The current U.S. proposal is a well-crafted package, providing a basis for substantial progressive reductions in production- and trade-distorting government interventions along a reasonable time frame.

Safeguards for producers and domestic industries in the plan, including snap-back and tariff-quota provisions of the import tarification scheme and so-called "permitted" or "green light" internal policies should be more than adequate to provide necessary protection to U.S. producers in the transition to a more open and competitive world market.

The U.S. proposal also calls for the 5-year phasing out of export subsidies. This, too, is both workable and necessary.

Export subsidies represent the height of folly of today's global agricultural system. This is particularly so in light of longstanding U.S. policies, and more recent EC efforts, to curb agricultural production. Elimination of export subsidies must be a principal priority of MTN concluded in 19980. In the meantime, the administration has indicated that it will want to maintain adequate resources in the export enhancement program.

I will not dwell at length on the need for reform of the current international agricultural system. The need for reform of the system is both obvious and self-evident.

The United States has little to fear from efforts to reform the international agricultural market place. Only the United States possesses the massive production and marketing system capable of fully satisfying growing world demand.

Resource adjustments will, of course, be necessary in the United States, as they will be necessary in other countries. However, these adjustments need not come at the expense of U.S. agricultural producers. Overall opportunities for U.S. agriculture will escalate, not contract, under the terms of the U.S. proposal. Exports will grow. The U.S. agricultural economy will be placed on a sounder, more sustainable economic footing. No current alternative to the U.S. proposal, including continuation of the status quo, offers any greater hope of progress.

I have discussed in this testimony the benefits to be derived from adoption of the U.S. proposal. Let me turn, in closing, to the risks to trade likely, even guaranteed, should the current round of MTN talks fail to yield significant reform.

Recent years of trade conflict and worldwide unfair trade competition have seen an undermining of faith in the GATT process. There is real danger that the process may be impaired beyond remedy should United States and foreign negotiations fail to achieve meaningful reform in the current round of multilateral trade negotiations.

We live in an independent global economic and political environment. The decisions we make today affecting our own economy have significant ramifications for the economies of other countries, developed and developing alike. We are no longer immune from the need to maintain consistency and rules of fair play in international trade.

The U.S. proposal on the MTN is a blueprint for future U.S. and global economic opportunity. Whether adopted in part or in full, it promises to play a role in forging a new era in international trade. Congress and the committee must work with the administration to ensure that the result of the current round of negotiations is U.S. agricultural trade growth. We, of course, stand ready to do our part in the private sector in support of your considerable efforts.

Thank you.

[The prepared statement of Mr. McCoy appears in the appendix.]

Senator BAUCUS. Thank you, Mr. McCoy.

You have already touched on some of the points I am going to make, but I would like to just go down the table and ask each of you representing your industries several questions. In the interest of time, I urge you to be right to the point, almost cryptic, so we get a sense of where each of the various commodity groups are.

The first question: You have already mentioned this to some degree, Mr. Ravnholt; but how would American beet producers do if all subsidies worldwide were eliminated, if all agricultural protections worldwide were eliminated?

Mr. RAVNHOLT. Senator, as you know, your beet farmers in Montana are very good farmers, very efficient farmers. If they are seventh lowest among 31 beet-producing countries in the world, they should do very well if other countries abolish all of theirs. I don't think that is something which is likely to happen as a result of this Uruguay Round. In fact, the administration's proposal says we are going to permit special subsidies to continue in the so-called "developing countries."

Senator BAUCUS. That is the next question I was going to ask. If most producers, like, say, Montana beet producers, could do okay, assuming all subsidies, worldwide, are eliminated, the next question is whether you support the administration's proposal. Basically you are saying you are concerned about developing countries' exceptions, but what else?

Mr. RAVNHOLT. We are also concerned about the tarification proposal. We think the idea of tariff rate quotas would, shall we say, certainly require a major change in the kind of support program that we now have. It would dump costs for the stability that we need in our sugar program onto the government, because what you have with the tariff rate quota is a tariff based, they are suggesting, on the difference between the U.S. price and the world price for the years 1986 through 1988. This would result in a tariff of about 13 cents a pound on sugar. That would be sufficient to make uneconomic any imports into the United States above the low-rate or no-rate quota that they would let in.

However, they then suggest that, as we reduce that prohibitive level over time, there would be any snap-back when the imports exceed 20 percent above what they were the previous year. Well, you get in 20 percent more sugar, and you have brought the price down below the support level, and you then have the sugar that is under loan to the government forfeited to the government at taxpayer expense, and I think that would be a very real problem for us.

Senator BAUCUS. Again, so I better understand, what changes would you make in the administration's proposal? One is to not

give the exemption to developing nations, but what else would you include in the administration's proposal, from the beet producers' point of view, Mr. Ravnholt?

Mr. RAVNHOLT. I would say that the tariffication bothers us greatly, also, as well as the provision for developing countries.

Senator BAUCUS. Would you eliminate the tariffication, or what would you do?

Mr. RAVNHOLT. We think that the current quota system works very well, and certainly I think that the tariff rate quota system that they are suggesting would have to be modified so that we would still be able to use imports to fill the residual needs of the U.S. market.

We cannot determine from 1 year to the next how much sugar we are going to need to provide price stability in our market. That may vary by as much as 5 percent in terms of domestic production.

Senator BAUCUS. Again, so I further understand, are you saying that even if all subsidies were eliminated worldwide, you would still need some residual provision?

Mr. RAVNHOLT. No, that is not what I was saying.

Senator BAUCUS. All right.

Mr. RAVNHOLT. I was addressing myself specifically to the administration's proposal and the means by which they seek to get to that state.

Senator BAUCUS. I see. Thank you.

Mr. Cook, from the cattle-producers point of view, can you compete if all of the subsidies—agriculture protections, in your industry—worldwide, across the board, are eliminated?

Mr. COOK. Yes, we can, with what we produce. We are unique in this country with our grain-fed beef, and we are competitive in the world markets for grain-fed beef.

So I believe, from most of the studies and reports that have been done on the U.S. proposal, that the livestock industry, and particularly beef, would be one of the real beneficiaries, providing that the goals and objectives of the administration are carried out.

Of course, there are some provisos there, as the administration has made very clear, that other countries have to meet the same commitments and make the same concessions that we might.

So, if all things turn out the way we ideally would like to see happen, the U.S. beef industry would be a beneficiary, and we would be very competitive in the world market with our grain-fed beef.

Senator BAUCUS. Mr. McCoy?

Mr. MCCOY. Well, from the perspective of the grain exporters, I think we have no doubt in our minds about the competitive potential for the United States that would be involved in a much more global market place.

Frankly, we are concerned that inflexibilities in international trade currently are creating the difficulties that we encounter. We are the only nation that has this tremendous agricultural productive capability, that has the level of expertise and knowledge of our producers, that has a monumental marketing system. The Mississippi River and the Coasts were made for the export business in this country, and for agriculture. And frankly, we believe that the

elimination of import barriers and export barriers would be a tremendous boon.

Senator BAUCUS. But as it stands, does your group support the administration's proposal?

Mr. MCCOY. That is correct.

Senator BAUCUS. As it stands, right now, do you support it?

Mr. MCCOY. That is correct.

Senator BAUCUS. All right.

Mr. Wyckoff, can you compete with grain growers worldwide? Do you agree with the proposal as it is? If not, how would you modify it?

Mr. WYCKOFF. Well, I don't have any suggestions of how to change the proposal at this time. I think that they need to maintain a very strong position until all of the other papers come in.

As far as competing in the world with wheat production, I think we will have areas within the United States that might have some trouble; but I think the majority of the industry is going to survive and probably prosper some.

But if the study that Senator Daschle quoted is correct, a 44-percent reduction in the price, it might be pretty tough for us to exist, at the cost of production levels; but if we can find somebody who can produce it for $2.76 a bushel—at today's prices, that is what a 44-percent reduction in price would be—I think we can do that. But not all areas of production today can do that.

Senator BAUCUS. If you don't know yet how to change the administration's proposal, what advice are you giving to the administration?

Mr. WYCKOFF. Well, as I said in my testimony, we are not in favor of decoupling. So there have to be some supports in there related to production, or some form as to what we currently have for internal domestic subsidies.

If we can eliminate all of the export subsidies that go on across the world, well, then, we are ready to do that right now. We haven't done much of that here in the United States.

Senator BAUCUS. All right.

Mr. Caffey, how about the rice millers?

Mr. CAFFEY. Well, the first thing I want to say is that I am talking for the industry; I am not talking for the farmers, because it is very difficult for me to do that, other than that I count on them a whole lot.

Taking it in the context of how it has been presented to us, that no unilateral agreements, no single agreements, that we give, they don't give approach, if it is a unilateral agreement that we feel like we are very competitive in the world with rice production and prices, we are ready to support that, assuming that those countries I mentioned in my summary of our position would be followed, and they would follow our agreement to open their markets.

Senator BAUCUS. All right.

Now, you heard Ambassador Katz and Secretary O'Mara speak. Did either of them say anything that prompts a response from any of you? Here is your chance.

Mr. COOK. The only response for the record is that the Meat Import Law quotas have been invoked once, for the fourth quarter of 1976. So they have got a bigger problem on their hands in tarifi-

cation, and they look at that from the standpoint of how that law has been handled.

Senator BAUCUS. Did anybody else say something so outrageous it deserves a response? If not outrageous, at least that deserves a response?

Mr. RAVNHOLT. Well let us say that I have serious problems with the forecasts which are coming out, of "a major gain of $10 billion" or something "for American agriculture," in view of the other studies that have come out.

I also see absolutely no way in which, under our political system and with the budgetary constraints which we are now operating under, that we can somehow transfer the benefits which may flow through to other segments of the economy into supporting the rural segments of our society in a manner which would be acceptable to them as well as to the American taxpayer and the Government or to this Congress.

Senator BAUCUS. Well, I thank you all very much for taking the time. I apologize, also, for extending this over the noon hour. We are dealing with Judge Nixon's impeachment trial in the Senate, and it took longer than I expected. But again, thank you for taking the time, and I apologize for the inconvenience.

The hearing is adjourned.

[Whereupon, at 1:22 p.m., the hearing was concluded.]

APPENDIX

Alphabetical Listing and Material Submitted

Prepared Statement of Senator Max Baucus

I strongly support the underlying principle of the U.S. proposal to eliminate agricultural trade barriers worldwide.

In most years, the U.S. is the world's number one agricultural exporter. Last year, the U.S. exported about 75% of its wheat crop and 40% of its soybean crop as well as significant quantities of rice, beef, corn, and many other commodities. In my state, more than 85% of the wheat crop normally goes for export as does a growing percentage of beef production. Nationally, more than one out of every three cultivated acres raises crops for export.

If other nations, like the EC, Japan, and Korea, were to eliminate their trade barriers, U.S. agricultural exports could skyrocket. For instance, the 1989 National Trade Estimate stated that elimination of European agricultural trade barriers would result in a $7 billion improvement in the U.S. trade balance.

On a level playing field, American farmers would prosper. That is why Senator Boren and I recently introduced S. 1746. This legislation would require the Administration to use Section 301 and various agricultural export programs to protect the interests of American farmers if the GATT talks break down. It is intended to send a strong message to our trading partners that the U.S. is serious about agricultural trade, and to strengthen the hands of our negotiators.

That said, I do have some concerns about the Administration's most recent negotiating proposal From the perspective of my constituents, this is the most difficult trade negotiation the U.S. has ever engaged in. A good agreement could be a bonanza for American farmers, but a bad agreement could be an economic disaster.

Literally every word of an agreement is potentially critical. If the Administration is to conclude an agreement that Congress can support, consultations with Congress must be an integral part of these negotiation. Too often, consultations have been a matter of sending the Congress a press release an hour before it is released. This is certainly not what the Congress has in mind when we write consultation requirements into U.S. trade law.

The situation has improved recently. Ambassador Hills deserves praise for making an extra effort to consult with Congress and take our advice on contentious issues. But in regard to the agricultural negotiations in the Uruguay Round, consultations have meant informing Congress of Administration proposals in advance and allowing Members and staff to observe negotiations.

Unfortunately, the communication has been essentially one way. I have seen little willingness on the part of the Administration to take congressional suggestions. That is simply not satisfactory. If the Administration is not willing to take our suggestions, they could have serious difficulties getting an agreement approved by Congress.

I have two comments I particularly want to impress upon the Administration. First, the Administration should adopt a tougher, more mercantilistic negotiating posture. The Administration proposals on agriculture seem to be driven as much by an ideological commitment to free trade as by a desire to improve the position of U.S. agriculture. There was a time when the U.S. could lead the world by example in trade policy. The U.S. could afford to concede more than other nations, and to grant concessions to benefit other nations while gaining little in return. Those times are gone. Any trade agreement that the Administration brings to Congress for approval will be judged on whether or not it benefits the U.S.

The agreement must demonstrate concrete benefits for American farmers, businessmen, and workers.

Happily, as was the case with the U.S.-Japan beef and citrus agreement, freer trade typically benefits other nations as well as the U.S. But the U.S. must negotiate with its own best interests in mind, not those of Australia, Thailand, or other nations. The Administration would do well to remember that the first GATT Agreement was turned down because Congress judged it a threat to American farmers. Congress will be interested in the bottom line, not consistency of principle.

Second, I strongly oppose the portion of the Administration's proposal that grants developing countries a waiver from the new rules—at least temporarily. Last year, then Treasury Deputy Secretary McPherson called for an end to special and differential treatment for developing countries in the GATT. He argued articulately that this concept had outlived its usefulness and was being used by developing countries as an excuse to continue protectionist policies. Yet we agreed to special treatment for developing nations in order to conclude a mid-term agreement to keep the negotiations moving.

There is no sound reason for letting the developing nations play by a special set of rules in agriculture. Many developing nations have highly developed agricultural sectors. In fact, the developing nations are likely to be clear winners if world agricultural trade is liberalized. Yet many maintain egregious trade barriers. Nigeria bans importation of wheat. Korea until recently banned importation of beef and continues to block adoption of GATT recommendations that it phase out its beef quota. Korea also maintains restrictions on a variety of other agricultural products. Brazil and Argentina subsidize soybean exports. Brazil blocks imports of a number of agricultural products with import licenses—now the subject of a "Super 301" investigation. Unfortunately, this list goes on and on.

By itself none of these developing countries represents as large a problem as the EC or Japan. But these nations are the growth markets for U.S. agricultural exports. Allowing developing nations to retain their restrictions and subsidies while the developed nations phase theirs out denies American farmers a level playing field. The principle of special treatment for developing nations simply has no place in a GATT Agreement on agriculture.

With all of the above in mind, I want to reiterate that I support the principle of free Trade. We have a tendency to think of computer manufacturers and other high technology industries as America's world class competitive industries. Those industries are world class competitors. But the U.S.' most consistent winner by far has been agriculture. In the modern era, the U.S. has always run a large surplus in agricultural trade.

The U.S. is blessed with ideal soil and weather conditions as well as a diverse and highly skilled agricultural sector. American farmers will always be a world class competitors. Thus, we have a considerable amount to gain from a strong agricultural trade agreement.

But we are not desperate for such an agreement. If we cannot negotiate an adequate agreement, the U.S. can and will go it alone by using Section 301, the Export Enhancement Program, and marketing loans. Senator Boren and I introduced S. 1746 to remind our trading partners of this fact.

I urge the Administration to continue to negotiate and negotiate hard. But please take note of the comments I have made today.

PREPARED STATEMENT OF C. RONALD CAFFEY

Good morning Mr. Chairman, my name is C. Ronald Caffey. I am Director of Raw Materials for Uncle Ben's Incorporated, a Houston, Texas-based rice milling and marketing company. I am here today in my capacity as Chairman of the Board of the Rice Millers' Association. The Rice Millers' Association (RMA) is the national trade association for the U.S. rice milling industry. Founded in 1899, RMA is one of the nation's oldest agricultural organizations. RMA's 25 members consist of both independent rice milling companies and farmer-owned cooperative rice milling companies, with facilities located in Arkansas, California, Florida, Louisiana, Mississippi, Missouri, Tennessee and Texas.

In addition, there are 30 associate members of RMA. These include major U.S. rice exporters, bag manufacturers, food companies, brokers and ports.

RMA member firms mill virtually all rice produced in the United States and together with associate members account for virtually all U.S. rice exports.

Mr. Chairman, the U.S. rice industry has a lot at stake in the Uruguay Round of Multilateral Trade Negotiations. We commend you for calling this hearing. It is

very timely as the Uruguay Round prepares to begin the final year of negotiations and with the U.S. government having just tabled its comprehensive proposal for agriculture. RMA appreciates the opportunity to present our objectives and concerns regarding the Uruguay Round to your subcommittee.

A successful outcome for the Round is essential because we believe our industry can grow and prosper in an international trading system characterized by reduced subsidies and increased market access. We are an export-dependent industry. Over the past five years, an average of 54 percent of our annual production has been exported to foreign markets. Over the past five calendar years, our exports have averaged $700 million annually.

We, like the rest of agriculture, are proud of our positive contribution to the U.S. balance of trade.

But, Mr. Chairman, as you well know, that is not the end of the story. USDA studies show that for each $1 of U.S. exports, an additional $1.65 in associated economic activity is created. Thus, our exports generate an additional $1.2 billion in economic activity annually.

Rice production and export quantities are smaller when compared to some other U.S. crops, but our totals are not insignificant. Moreover, since our industry is heavily concentrated in six states, our ability to successfully export rice has a substantial economic impact regionally.

The U.S. rice industry produces a quality product which is in demand abroad. Commercial sales of high-quality U.S. rice to a wide ranging group of markets such as Europe, the Middle East, Canada, Mexico and South America attest to this demand. However, we could be exporting more rice. We estimate that the U.S. could export an additional $1.2 billion of rice if barriers in the European Community, Japan and South Korea were removed.

Mr. Chairman, I would like to focus on the barriers in these countries for the subcommittee.

European Community. The E.C. is an important market for U.S. long grain rice, accounting for one out of every six tons of U.S. commercial exports. However, our analysis indicates that the E.C. variable levy, in particular the computation and application of a factor called "corrective amounts," and subsidy system reduces U.S. rice exports by at least 300 thousand tons annually, valued at an estimated $75-$100 million.

Moreover, the Europeans in 1988 introduced a five-year production subsidy of 330 ECU per hectare (about $150/acre) to farmers who switch to growing long grain rice, the type imported from the U.S. This production subsidy could cause the loss of an additional 100–200 thousand tons of U.S. long-grain rice, with an estimated value of $25–$50 million.

The long-grain rice subsidy scheme may have a eerily familiar ring to it. It is precisely the means by which the E.C. boosted its own wheat production to the detriment of other wheat exporting countries.

We estimate that the E.C. variable levy and subsidy system combine to reduce U.S. rice export by at least $100–$150 million.

Mr. Chairman, you have rightly pointed out that the European Community has continued to drag its feet in the Uruguay Round negotiations. While they have made token statements about reducing internal supports, they continue to resist negotiations on external supports and tariffs. The U.S. and other nations with a stake in the agricultural negotiations, must press the Community to negotiate in good faith on *all* trade distorting practices, both internal and external.

Japan. Japan virtually bans all rice imports. This denies U.S. farmers access to a ten million ton market. This lucrative market, the largest premium rice market in the world, is currently valued at approximately $35 billion. If the Japanese removed import barriers, the rest of the world would stand to provide 3.4–4.8 million tons of their needs. Because the U.S. is uniquely positioned to supply the type of high-quality rice the Japanese consumer demands, the U.S. would emerge as a major supplier. Our estimates indicate that we could increase exports by 1.6–1.8 million tons, 60 to 65 percent, with access to the Japanese rice market. The estimated value of this level of Japanese imports of U.S. rice is $656 million.

Unfortunately, as recently as October 5 of this year Prime Minister Toshiki Kaifu rejected a U.S. request that Japan agree to liberalize its rice import policies in the Uruguay Round. He indicated the Japanese government will continue the policy of ensuring self-sufficiency in rice. Such an attitude is unacceptable.

South Korea. The situation in South Korea is similar to that in Japan. The Korean government refuses to import rice, even though international prices are a fraction of domestic prices. We believe removal of this trade barrier would allow the

U.S. to export about 750 thousand to one million tons of rice to Korea, with a value of $350 million.

Although, on his recent visit to the United States, Korean President Roh Tae Woo said that only the passage of time would allow Korea to adjust and achieve openness in its agricultural markets without causing political and social trauma. Open-ended statements such as this are not acceptable to the U.S. rice industry.

Mr. Chairman, RMA supports the underlying principles of the U.S. proposal in the Uruguay Round to eliminate agricultural trade distorting practices and programs. We believe American agriculture can complete and win markets and prosper from such business, given a level playing field in international trade.

However, we agree with the philosophy of the statement Secretary Yeutter made on October 24, 1989, when he said, "The United States will never turn our swords into plowshares without other countries doing the same. We will only negotiate changes that have adequate transition periods, so farmers will have ample time to adjust." These two principles; the U.S. will not unilaterally disarm, and there must be a realistic transition period consistent with the complexity of the changes contemplated, are crucial to development of a sound GATT agreement.

But, Mr. Chairman, there is another question that we worry about—and we worry about it a lot. We understand other U.S. sectors and industries may worry about it also. The question is, will a final agreement provide all U.S. industries a competitive opportunity for economic growth and development through improved trade? We believe it must. Therefore, we believe a third basic principle of the Uruguay Round negotiations must be no trade offs. One sector must not be traded off for another sector. One industry must not be traded off for another industry.

RMA is extremely satisfied with the commitment of our negotiators to this principle. On more than one occasion Secretary Clayton Yeutter, Ambassador Carla Hills, Deputy USTR Jules Katz and other negotiaters have pledged their support for this principle.

Mr. Chairman, as you know, some of our trading partners and GATT members do not consider this principle appropriate. On September 18, 1989 the Japanese Minister of Agriculture, Forestry and Fisheries indicated Japan's GATT proposal will advocate a policy for "complete self-sufficiency in rice." RMA does not believe this position gives Japan the ability to claim they are being cooperative in the GATT. It is not consistent with the U.S. objective of putting all programs on the negotiating table. Furthermore, it is not consistent with the GATT mid-term agreement for the Round to negotiate "substantial progressive reductions in agricultural support and protection . . . resulting in *correcting* and *preventing* restrictions and distortions in world agricultural markets."

South Korean officials recently indicated their rice market would remain closed indefinitely. The E.C. long grain rice subsidy program implemented in 1988 violates, we believe, the Uruguay "standstill and roll back" provision. This action by the E.C. causes us to believe they will press for the principle of agricultural "rebalancing" in the negotiations.

Objectives consistent with the actions of these three GATT members will not lead to a level playing field in international trade for all. They are not consistent with the conclusion supported by virtually all recognized studies that agricultural trade liberalization benefits every level of an industry—producers through consumers. Thus, it is our opinion that if trade is good for one industry, it is good for all industries, provided there is an absolute level playing field.

In conclusion, Mr. Chairman, I would say that the U.S. rice industry would benefit from the U.S. GATT proposal for improving the world trading system because government intervention in world rice markets is pervasive. The GATT framework offers an efficient means of dealing with the array of trade distorting provisions that exist in world rice markets.

We know that removal of trade barriers in the E.C., Japan and Korea would generate significant expansion in U.S. rice exports. Because many of the policies that the Uruguay Round negotiations will address are considered politically sensitive, attempts are likely to be made to justify specific exemptions, as Japan indicates it hopes to do for rice. We believe the objective of the Uruguay Round, "to provide a global, market-oriented environment for trade in agricultural products," precludes such exemptions.

We hope member countries of the GATT are able to develop an agreement consistent with the U.S. proposal by December 1990. However, as the Round begins it final and most important year, all GATT member countries must know that the U.S. Congress is closely watching the progress of the negotiations.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF ROBERT D. JOSSERAND

My name is Robert D. Josserand. I am a cattle feeder from Hereford, Texas and currently serve as President of the National Cattlemens Association. I own and operate commercial feedyards in Texas and Arizona.

We appreciate the opportunity to be here today to present our views on the Uruguay Round of the Multilateral Trade Negotiations.

The beef industry is a relative newcomer to the international trade arena. However, we have been active participants for the past ten years.

It wasn't too many years ago that beef producers considered our export market as merely a residual market, where we exported what we couldn't sell here at home. That situation has changed dramatically.

The United States is the world's largest producer, and largest importer of beef. Now, we are becoming a major exporter.

About ten years ago when the beef industry began to seriously look to exports, we were soon to learn of trade barriers that were in place by our potential customers.

Today we are still hindered by restrictive quotas, unreasonable health and sanitary retirements and other trade impediments into potential markets.

A bright spot with our export market is from the results of successful trade negotiations with Japan, our best customer.

We believe the lowering of trade barriers into other markets should be done. The Uruguay Round can and should be the vehicle to lead to the opening of all beef markets around the world.

The National Cattlemen's Association supports the goals and objectives of the Administration in the Uruguay Round. we believe U.S. cattle producers can compete in the international marketplace, if there is a level playing field.

We support the desire of our negotiators to eliminate trade distortions such as quotas, exports and other subsidy programs.

The recently tabled proposal by the United States on comprehensive long-term agricultural reform is an ambitious undertaking. Some may consider it idealistic or even unobtainable. However, it moves us toward a market oriented international trading system.

If the U.S. proposal is to succeed, the other trading countries of the world must participate in the negotiations with the same commitment as the United States by doing away with their own trade distorting programs.

It will be unthinkable for the U.S. to negotiate unilaterally. Our programs are on the table, but they must not be negotiated without substantial returns.

Our negotiating representatives have assured us that we will not concede our programs without getting something in return. They will negotiate on a sector by sector basis. The U.S. Agriculture reform proposal is part of the overall U.S. package and it will not be split off. If they hold true to these assurances, we believe our interests will be looked after. It seems that after every MTN, the U.S. negotiators are accused of giving away too much for what we got back. It is our responsibility, the Congress and the private sector to hold their feet to the fire so these accusations don't happen this time.

With literally everything on the table, there are some programs, previously thought to be untouchable, now being considered for negotiation. One such program important to the cattle industry is the Meat Import Law. The National Cattlemen's Association believes the Meat Import Law to be extremely valuable in preventing our market from being the dumping ground of other countries' surpluses. This law provides predictability for the producer, the importer, the supplying countries and the consumer. It provides a guaranteed access that no other importing country provides.

We will be watching as the specific negotiations proceed as they relate to the Meat Import Law. While we know it's on the table, that in no way means we will give up the Meat Import Law unless we know what we are getting in return, and that means open markets around the world that provide us the same opportunities that we provide others to our U.S. market.

The Administration's proposal on tariffication is unique. Our first experience with tariffication was with the 1988 U.S.-Japan beef agreement. We are not sure just how the Meat Import Law can be converted to tariffication. During the twenty-five year existence of the law, quotas have only been invoked once, during the fourth barter of 1976.

The NCA supports the U.S. proposals on sanitary and phytosanitary measures. We believe measures taken to protect animal, plant and human health should be based on sound scientific evidence and they should recognize the principle of equivalency.

We need only to look at our differences with the European Community on their hormone and third country meat directives to illustrate the need for a sound and reasonable mechanism to resolve such disputes.

The National Cattlemen's Association is cautiously optimistic about the Uruguay Round. We want to see our negotiators succeed in obtaining their goals and objectives. We want to be consulted during the process. We will be quick to advise our negotiators and Congress when we believe there is something wrong.

Our negotiators need our support, but we must, as mentioned before, keep their feet to the fire. We must make sure our negotiators know we prefer and insist on no deals instead of bad deals.

The next twelve to fourteen months are crucial to our trading future. We look forward to being part of the process.

PREPARED STATEMENT OF AMBASSADOR JULIUS KATZ

Mr. Chairman: Thank you for your invitation to discuss the U.S. position on agriculture in the Uruguay Round multilateral trade negotiations. As you know, Under Secretary Richard Crowder and I attended a meeting of the Uruguay Round Negotiating Group on Agriculture in Geneva last week. During that session, we presented to representatives of nearly 100 countries participating in these negotiations a comprehensive proposal on how to build a freer and fairer international agricultural trading system.

More detailed reactions to our proposal from our negotiating partners are expected at the next meeting later this month, but the preliminary comments we heard last week in Geneva were for the most part positive and encouraging. Most importantly, the introduction of our paper at this time has provided a spark to these critically important negotiations, which will intensify in the weeks ahead.

Although agriculture is one of 15 issues being negotiated in the Uruguay Round, most participants agree that the success of the entire negotiations will depend on the ability of the Contracting Parties to agree upon an acceptable agricultural package. Participants in previous rounds essentially failed to address agriculture in a meaningful way because of the political difficulties involved. Those failures have compounded the problems in this sector. The situation has now reached a point where adjusting at the margins is no longer acceptable. We need fundamental reform in the agricultural trading system.

The U.S. proposal envisages that the policy reforms should be carried out gradually and in a coordinated fashion within the context of multilateral commitments made in the Uruguay Round negotiations. In our view, the current round of GATT negotiations offers all participants an exceptional opportunity to reverse the skyrocketing costs and enormous economic inefficiencies associated with present farm support programs. We have, however, emphasized repeatedly to our trading partners that, while we are convinced that reform is in our mutual interest, we will not begin the difficult process of modifying our policies unless and until other countries are prepared to do likewise.

Our objective is to create a global environment in which agricultural producers are free to compete on the basis of their ability to produce duality products at competitive prices. We are convinced that U.S. agricultural producers, who are among the most competitive in the world, would prosper under those conditions.

The proposal we presented in Geneva last week covers all aspects considered essential to meaningful agricultural policy reform—import access, export competition, internal support, and sanitary and phytosanitary measures. It is the first comprehensive proposal presented to the Agricultural Negotiating Group.

At the Mid-Term Review in April, all GATT members agreed to a December 1989 deadline for submitting negotiating proposals. The U.S. proposal fulfills that commitment. The Cairns Group, the European Community, Japan, and others have tabled proposals addressing some, but not all, aspects of the negotiations. At the November meeting of the Agricultural Negotiating Group, we expect additional comprehensive submissions from these and, perhaps, other countries. These proposals will form the basis of the negotiations during the critical final stage of the Uruguay Round, now until the conclusion of the Round when trade ministers will meet in Brussels in early December 1990.

Mr. Chairman, since the text of our proposal has been made public, I will simply summarize.

The United States proposal seeks to reform trade in agriculture in four key areas:

• Market Access—countries would: (1) convert all non-tariff barriers to bound tariffs; (2) make substantial reductions in these tariffs and existing tariffs over ten

years; (3) use tariff rate quotas and safeguard measures to facilitate the transition process.

• Export Competition—export subsidies, including export tax differentials, would be phased out over five years. Export restrictions for foodstuffs imposed because of short domestic supplies would be prohibited upon enactment of the agreement.

• Internal Support Measures—(1) those which are most trade distortive would be phased out, (2) those which interfere less, would be disciplined, and (3) those having a relatively minor trade impact would continue as long as they meet specific criteria.

• Sanitary and Phytosanitary Measures—regulations and barriers would come under an international process for dispute settlement and harmonization.

That is a brief description of the proposal we presented last week, and that concludes my statement. I would be pleased to respond to any questions.

Prepared Statement of Steven A. McCoy

INTRODUCTION

It is a pleasure to appear before you today to discuss international agricultural trade and the GATT. I appear as a witness for the North American Export Grain Association (NAEGA), the national organization of U.S. grain and oilseeds exporting companies and cooperatives.

The NAEGA membership has an obvious and direct interest in agricultural trade and the conditions of fair play—or lack of them—that exist with respect to such trade. NAEGA companies ship over 90% of the grains and oilseeds and products annually exported from the United States.

As exporters, we are vitally interested in all efforts designed to establish a more equitable and competitive trade environment. Conversely, we also are concerned to avoid policies in this country and abroad that threaten to starve U.S. agricultural export potential and disserve consumers and producers of farm products worldwide. The billions of dollars invested by U.S. exporters in grain exporting facilities, infrastructure and jobs throughout the United States is graphic evidence of our stake in the questions before the Committee today. We welcome the opportunity to work with the Committee to design an appropriate private and public U.S. response to the challenges of international agricultural trade and the risks and opportunities created by the current round of multilateral trade negotiations (MTN).

SUPPORT FOR THE ADMINISTRATION POSITION

We are pleased to indicate today our strongest possible support for the Administration's current MTN negotiating position announced October 25; and our full and complete confidence in the negotiating team representing U.S. agricultural interests in the GATT. We do so recognizing this Committee's own longstanding record of commitment to the goal of fairer agricultural trade.

We salute the Congress's leadership in agricultural trade matters, including this Committee's role in the 1988 Trade Act. There is much to be accomplished in our as yet incomplete agenda on agricultural trade reform. With the Administration's October 25 announcement—and with previous rounds of MTN negotiations—we have only scratched the surface of a complex of difficult issues demanding our closest attention and resolution. Real work on these issues now begins in earnest, looking to the tabling of other MTN reform proposals in December; next year's farm bill; and the deadline for completion of the MTN negotiations at the end of 1990.

U.S. PROPOSAL JUST AND FAIR

The current U.S. agricultural negotiating position in the MTN is just and fair. It deserves the strong support of the U.S. agricultural community. It alone among proposals presently before the MTN provides the best possible opportunity to achieve significant U.S. benefits and maximize global economic welfare in international agricultural trade.

We are aware that the U.S. proposal has been roundly criticized by European Community (EC) and Japanese trade officials as extreme, and as inconsistent with previous understandings arrived at in earlier rounds of negotiations. We are further aware that internal farm support provisions of the proposal have excited initial controversy among groups concerned about future dismantling of existing government protections and programs designed to maintain income security in the agricultural sector.

We are not insensitive to such concerns. As agriculturalists ourselves, we recognize the need to maintain income for American farm producers. In our view, such income can and should be provided by the market, without resort to production- and trade-distorting government programs and mechanisms. However, we understand concerns that arise in the context of the need for change—any change—in the global agricultural "status quo."

We are less sympathetic about EC and Japanese government reaction to the current U.S. negotiating position. In defense of the U.S. position, we note that other nations, particularly Australia and Canada, have reacted favorably to both the content and schedule of reform contained in the U.S. proposal.

We do not agree that the current U.S. position reneges on the previous agreement on agriculture arrived at in Geneva in April. Rather, the current position refines that agreement by making clear specific actions to be taken consistent with previous understandings. Until recently, matters under discussion at the MTN have tended toward the philosophical rather than the practical. With the advent of the U.S. proposal, the agenda seeking practical solutions has been advanced. We look forward to a further development of EC and Japanese proposals to be presented later this year. In the meantime, the U.S. proposal should not be prejudged absent similar specific remedies which may, or may not, be proposed by our trade competitors.

FEAR TO COMPETE

EC and Japanese government opposition to the U.S. proposal, like some opposition within our own country, is symptomatic of a fear to compete. A substantial element of the Japanese and European agricultural community, and a minority of our own, has, as yet, perhaps failed to recognize the real economic benefits to be achieved from thoroughgoing reform of the global agricultural trade regime. Market forces, not government fiat, will dictate such benefits. However, there is a reticence to commit to such forces absent guarantees regarding the outcome of change.

Japan and Europe fear the loss of domestic benefits that have been achieved using protectionist and predatory trade policies now in effect. Domestic interests opposed to reform in our own country may fear change for similar reasons. Political leadership in the United States, Japan and the EC will be needed to dampen anxieties and instill confidence as we move from the politics of risk aversion and protectionism to a new era of fairer global competition. In that process, all eyes will turn to United States to gauge our dedication to—and confidence in—the policies we espouse.

It is vital that we in the United States maintain a unity of purpose favoring international trade reform. We should not commit to "unilateral disarmament" in the face of continued foreign protectionist or predatory trade policies. On the other hand, neither should we shirk from exercising our own responsibility to make changes in U.S. policies consistent with improving the global trade picture.

U.S. PROPOSAL IS WORKABLE

The current U.S. proposal is a well-crafted package, providing a basis for substantial progressive reductions in production- and trade-distorting government interventions along a reasonable time frame. It is a workable plan.

Safeguards for producers and domestic industries in the plan include "snap-back" and tariff-quota provisions of the import "tariffication" scheme; and so-called "permitted" or "green light" internal policies in areas such as direct income payments to producers; conservation and environmental protection; disaster assistance; domestic food aid; marketing programs; research, education and extension; and food reserve policies unrelated to price or income support. These safeguards would be more than adequate to provide necessary protection to U.S. producers in the transition to a more open and competitive world market.

The U.S. proposal calls for the five year phasing out of export subsidies. This too is both workable and necessary.

Export subsidies represent the height of folly of today's global agricultural system. This is particularly so in light of longstanding U.S. policies—and more recent EC efforts—to curb agricultural production. Elimination of export subsidies must be a principal priority of MTN concluded in 1990. In the meantime, the Administration has indicated that it will want to maintain adequate resources in the export enhancement program (EEP) to leverage EC compliance with export subsidy reform.

NEED TO REFORM SELF-EVIDENT

I will not dwell at length on the need for reform of the international agricultural trade system. Need for reform of the system is both obvious and self-evident. Budgetary pressures alone would appear to justify currently proposed changes in U.S. and foreign agricultural and trade policies. However, worldwide costs to consumers of such policies dwarf even this massive level of direct government spending.

A recent study estimates the annual total taxpayer and consumer cost of current agricultural policies at $150 billion in OECD countries alone. Other recent studies have demonstrated the negative impact of these policies in such diverse and unrelated areas as employment in Britain; housing availability in Japan; production in so-called "non-subsidizing countries;" and self-reliance and sustainability of agriculture in the lesser developed countries.

USDA has estimated taxpayer and consumer savings likely to accrue from the U.S. proposal at $40 billion. These are resources Secretary Yeutter believes can be rechanneled directly into U.S. agriculture in the form of enhanced demand and government spending. Savings in other countries are likely to be proportionally as great or even greater. Consequently, the U.S. proposal represents a "win-win" proposition for all countries, when viewed from the vantage point of overall economic and social welfare.

U.S. IS COMPETITIVE

The U.S. has little to fear from efforts to reform the international agricultural market place. In the grains and oilseeds sector, costs of production may, under certain circumstances, be lower in some countries than in the United States. However, only the U.S. possesses the massive production and marketing system capable of fully satisfying growing world demand.

Resource adjustments will, of course, be necessary in the United States, as they will be necessary in other countries. However, these adjustments need not come at the expense of U.S. agricultural producers. Overall opportunities for U.S. agriculture will escalate—not contract—under the terms of the U.S. proposal. Exports will grow. The U.S. agricultural economy will be placed on a sounder, more sustainable economic footing. No current alternative to the U.S. proposal—including continuation of the current status quo—offers any greater of hope of progress.

CLOSING COMMENTS

We have discussed today the benefits to be derived from adoption of the U.S. proposal in the current round of multilateral trade negotiations. Let me turn, in closing, to the risks to trade likely—even guaranteed—should the current round of MTN talks fail to yield significant reform.

Recent years of trade conflict and worldwide unfair trade competition have seen an undermining of faith in the GATT process. There is a real danger that the process may be impaired beyond ready should U.S. and foreign negotiations fail to achieve meaningful reform in the current round of multilateral trade negotiations.

We live in an interdependent global economic and political environment. The decisions we make today affecting our own economy have significant ramifications for the economies of countries, developed and developing alike. We are no longer immune from the need to maintain consistency and rules of fair play in international trade.

The U.S. proposal on the MTN is a blueprint for future U.S. and global economic opportunity. Whether adopted in part or in full, it promises to play a role in forging a new era in international trade. Congress and the Committee must work with the Administration to ensure the result of the current round of negotiations is U.S. agricultural trade growth. We, of course, stand ready to do our part in the private sector in support of your considerable efforts.

Thank you.

PREPARED STATEMENT OF CHARLES J. O'MARA

Mr. Chairman, I appreciate the opportunity today to provide you and other members of the Subcommittee the Department of Agriculture's views on the Administration's efforts to extend international trading rules to agriculture in the Uruguay Round of negotiations.

An important strength to U.S. agriculture is our competitive ability to market products abroad. However, our ability to do that has been threatened by the proliferation of trade distorting agricultural policies around the world. The policies em-

ployed run the gamut from quotas to export subsidies to import restrictions disguised as health barriers. No country has the ability to bring about a reform of these practices alone. Also, because one type of trade distorting policy may be used to replace another, reforms must be broad based. This is why the United States submitted a comprehensive proposal on agriculture in the Uruguay Round covering all aspects essential to the agricultural negotiations—import access, export competition, internal support, and sanitary and phytosanitary measures. The United States proposal would substantially and progressively reduce all trade distorting measures on a multilateral basis, while still giving farmers time to adjust to market forces, and governments the flexibility to continue to provide income supports and other safety nets for farmers. In our view, any agreement on agricultural trade reform must contain these elements. That is, reform must be substantial, the agreement must be multilateral, the adjustment should be gradual, and the agreement should provide a means for governments to support farmers in ways that do not distort trade.

Our proposal submitted last week in Geneva is aimed at the broad range of policies that distort agricultural trade. It provides a clear vision for the future on how governments should support agriculture. The proposal calls for improved and strengthened GATT rules and disciplines in all areas to guide production and trade towards a market-oriented system and to minimize trade distortions. It does not call for the elimination of support to any nations farmers, but rather for a redirection of policies so that trade-distorting effects are minimized. The orientation is toward market signal responsiveness, protection of farm income and away from programs that inhibit market growth and paralyze developing country agriculture through export subsidies and import barriers.

There are four basic concepts embodied in our proposal that deserve careful consideration and debate: they are tariffication of non-tariff import restraints, the abolition of export subsidies, the categorization and reduction of certain types of internal support, and the requirement that sanitary and phytosanitary measures be based on sound scientific principles.

Let me take a few minutes to explain these. On market access, our proposal incorporates the tariffication concept that we proposed in July, and also calls for substantial progressive reductions in all tariffs over a suggested 10-year transition period. All non-tariff barriers including import quotas, variable levies, restrictive import licensing practices, and voluntary export restraints would be converted to their tariff equivalent beginning in 1991. All tariffs, including those resulting from the conversion of non-tariff measures to tariffs, would be substantially and progressively reduced over the transition period. To ease the transition from non-tariff barriers to tariffs only, we have proposed that tariff-rate quotas could be used during the transition period. We have also proposed a special safeguard mechanism to protect against import surges that would be volume-based and would allow a country to revert back to higher tariff protection for the remainder of the year.

In the case of export competition, our objective is to more effectively orient domestic production to market forces through the elimination of export subsidies and export prohibitions. We propose that export subsidies be eliminated over an accelerated period of five years in view of the egregious nature of these subsidies, their abuse in the trading system, and the disruptions they have caused in the 1980's.

Export embargoes on food stuffs imposed for reasons of short supply would be prohibited beginning in 1991. Current GATT rules provide no recourse to importing countries for food export embargoes for short supply reasons. Our proposal would correct that. Also, export tax differentials, which can effectively act as export subsidies, would be phased out in tandem with export subsidies.

Turning to internal support, we propose the development of strengthened and more operationally effective GATT rules and disciplines covering all trade-distorting subsidies and leading to the elimination of the most trade-distorting policies.

To accomplish this objective, we have categorized internal support policies into three groups: (1) policies to be phased out over a 10-year transition period; (2) policies to be disciplined; and (3) policies to be permitted according to certain criteria.

The first category, which has a "stop light" at the end of the road, consists of those policies that have proven the most trade distorting. These include administered price programs, income supports, and investment and input subsidies that are not available to all producers and processors on an equal basis; in other words, commodity-specific subsidies tied to the level of output, input, or price.

The second category you can essentially view as having a sign that reads "caution, slow down." These are the policies that would be subjected to improved disciplines, and their overall level of subsidy would be reduced with the use of an aggregate measure of support. The GATT disciplines would be intended to prevent nullification or impairment of concessions, and material injury or serious prejudice to a

trading partner. Policies in this category are those that are capable of significant trade distortions but have been less abused than those in the stop-light category. They include, for example, input and investment subsidies, such as fertilizer and irrigation subsidies, that are available to producers and processors on an equal basis.

The third category, permitted policies, essentially consists of measures which are minimally trade-distorting. These policies would only be subject to existing GATT disciplines. Examples include direct income support programs not tied to production or price, domestic food aid, conservation programs, market promotion that does not affect price, and general services such as research and extension.

Last, but certainly not least, is our proposal on sanitary and phytosanitary measures. In essence, what we want to do here is establish an international process for settling trade disputes involving food safety and plant health issues, to promote harmonization. We also want to ensure that measures are based on sound scientific evidence and recognize the principle of equivalency, as provided in the Mid-Term Agreement. We would set up a formal process for notification, conciliation and dispute settlement, including the involvement of respected international scientific organizations.

We believe that the proposal would lead to a change for the better in the way governments support and protect agricultural sectors, in the opening of new markets, and in the opportunities for economic growth, particularly in developing countries.

The global reduction in trade distorting policies would allow U.S. farmers to exercise their entrepreneurial skills and make production decisions based on market forces rather than government programs. It would allow U.S. agriculture to exploit its comparative advantage and increase exports. Based on estimates by USDA's Economic Research Service, U.S. agricultural exports would be significantly greater, the U.S. market share for grains would improve and exports of higher-valued livestock and meats would increase. Almost every market economy participating in global reform would realize an economic benefit from removal of distorting policies. A recent ERS study, using 1986 as a base year, estimated economic gains at $10 billion for the United States.

Although we are making progress, the negotiations are far from over. We will encounter some serious resistance, especially from the EC. But that is to be expected from our groups reluctant to permit market price adjustments. I believe that there is a strong momentum for change among the majority of our trading partners. Aside from the EC, the overall reception of our proposal by our trading partners has been quite positive. As you know, agriculture is an integral part of the Uruguay Round negotiations. However, I understand that there is some concern that agriculture may be traded off for other interests. I can assure you that this will not happen. Ambassador Hills has made this quite clear in her discussions with the Congress and others. I can also assure you that the United States has no intention of unilaterally disarming to agricultural policies. Changes must be made on a multilateral basis in order to ensure that reforms will not expose U.S. producers to foreign unfair trade practices.

This proposal is economically and logically sound. It's a common-sense approach to agricultural reform. But we are not so naive to think that countries can overcome the political and economic obstacles to implement it overnight. That is why we have suggested a long transition period and special measures during the transition—to ease the burdens of adjustment.

This proposal is our version of what the rules that will guide agricultural trade in the 21st century should look like. It is not the Administration's Farm Bill proposal. We will work closely with the Congress in crafting a new Farm Bill. Since the present Farm Bill expires with the 1990 crops, a new Farm Bill will have to be in place by late 1990 approximately when the Uruguay Round is scheduled to end. When the negotiations are concluded, certain aspects of the Farm Bill may need to be changed to reflect the outcome of the negotiations. As you know, in the case of both the Farm Bill and the Uruguay Round, Congress has the final say, so any changes made will have to be acceptable to Congress.

We recognize that the multilateral reforms we are seeking in the Uruguay Round will take time. In the meantime, however, the Administration will continue vigorously and responsibly to pursue the elimination of foreign trade restrictions through bilateral consultations and negotiations and make active use of U.S. trade laws. Section 301 of the Trade Act of 1974, as amended, sets forth a legal framework for the U.S. Government to respond to unfair trade practices of our trading partners and to enforce U.S. rights under trade agreements. In recent years, we succeeded, for example, in opening the Japanese beef and citrus market, the Korean wine market, and the almond market in India and in resolving the dispute with the EC on exces-

sive production subsidies for canned fruit. In addition, a GATT dispute settlement panel recently sided with U.S. arguments that Canada's quotas on ice cream and yogurt were not GATT consistent. We are having constructive talks with India, Brazil and Japan on areas that have been identified as trade liberalization priorities; for agriculture these include restrictive import licensing in Brazil and forest product standards in Japan. We are continuing to address other major trade restrictive practices in on-going negotiations, notably, the EC's subsidies to producers of oilseeds and related feed proteins, Korea's restrictive import licensing on beef, and the EC's Hormone Directive on meat.

In addition to combating these countries' barriers to imports of U.S. products, the Export Enhancement Program (EEP) enables U.S. exporters to meet competition from other subsidizing countries in selected foreign markets. The objectives of the EEP have not changed. The existence or imminent threat of third-country market penetration at the expense of the United States remains a principal consideration in the program. Since 1985, there have been 105 initiatives under the EEP. Sixty-five countries have been targeted, involving 12 commodities. We have seen positive results from the EEP program. U.S. market share for many commodities has returned to historic levels from the depressed levels just prior to implementation of the program. The EEP program has increased debate with the EC concerning the high cost of maintaining farm support programs which brings pressure on the EC at the negotiating table in Geneva to seriously consider agricultural reforms.

We would like to take this opportunity to comment briefly on S. 1746. The proposed bill provides that if a draft bill implementing the Uruguay Round agreement on agriculture is not submitted to the Congress before February 15, 1991, then the so called "super 301" provisions, that are not in effect after 1990, will be extended to 1991 for the agricultural sector. Additionally, the bill would under these circumstances require the President to instruct the Secretary of Agriculture to implement a marketing loan program on wheat, feedgrains, and soybeans not later than 60 days before the marketing year for the 1991 wheat crop. If the President waives or discontinues such programs, he must implement the export enhancement provisions of the Omnibus Trade and Competitiveness Act of 1988.

We are confident that we will reach a successful Uruguay Round agreement on agriculture by the end of next year. At the same time, there is no question that we need to maximize pressure on other countries to achieve our objectives. We believe that we have sufficient authority now—under Section 301 and the EEP—to convince our trading partners that we will continue to act aggressively to liberalize agricultural trade in the absence of significant agricultural trade reform in the Uruguay Round. We believe negotiations should be given an opportunity to succeed before exploring steps to take if they fail.

We recognize that the toughest parts of the negotiations are ahead of us. It will require a good faith effort by all participants to achieve significant results over the next 14 months. We look forward to working with this subcommittee during the months ahead.

PREPARED STATEMENT OF EILER C. RAVNHOLT

Mr. Chairman, Members of the Subcommittee, I am grateful for this opportunity to appear before you today on a subject of great importance to the future of agriculture and to the future of sugar production in the United States.

As average cost world sugar producers and as producers receiving an average world rice for the product of our farms and mills, we believe that in a world of total free trade we should do all right. This belief is based on a number of studies, the most recent a 1989 study by London based Landell Mills Commodities Studies Ltd, and based upon the 1986/87 crop. According to that study, the U.S. ranked 7th lowest out of 31 beet sugar producing countries and 33rd lowest out of 61 raw cane sugar producers around the world. A lot of the world's sugar producers would, therefore, be forced out before we are, and while some lower cost producers may expand, that expansion will come at a somewhat higher cost than their current production. Average prices should, therefore, improve under a total free trade scenario and certainly the price on the world market, which would then truly be a world market, would be much higher than it has been in recent years.

It was that knowledge and that faith which encouraged us to give our support the concept of worldwide free trade in agriculture.

Why then are we worried? There are a number of reasons and those concerns have been heightened by some of the economic analysis we have seen lately as well as by the details the proposal the Administration tabled in Geneva last week. We

are concerned that we may not survive the process which the Administration has in mind.

A new GATT agreement to get rid of trade distorting agricultural programs, as called for in the Administration proposal, will force a reassessment of our own agricultural support programs and a likely drop in the total level of support for American agriculture. Currently farm income is supported through the market and/or with direct payments from the government to our farmers. Sugar is one of those commodities which is supported totally through the market with a requirement in the law that the President use all the authorities at his command to assure that the market price remains preferable to forfeiture to the government of any sugar placed under loan to the Commodity Credit Corporation. Since enactment of the 1985 Food Security Act, it has bee so administered.

An August 1989 study entitled "Economic Implications of Agricultural Policy Reforms In Industrial Market Economies" by the Agriculture and Trade Analysis Division of ERS at USDA, forecasts that multilateral liberalization by industrial economies will result in a 69% reduction in the unit return on sugar to U.S. producers and a 42% reduction in the quantity produced. Sugar is not the only loser by any means. Wheat, rice, dairy, coarse grains, oilseeds and products, and producers of other crops would all suffer producer price losses. All but oilseed, which is forecast to have a 2% gain in output, would also suffer losses in the quantity produced. Only ruminant and non-ruminant meats are forecast to gain and on average American farmers are forecast to suffer a 13% drop in producer prices and a 1% drop in total output. The referenced chart on that study appears below.

Table 7.—PRODUCER PRICE AND OUTPUT CHANGES FROM MULTILATERAL INDUSTRIAL MARKET ECONOMIES LIBERALIZATION

(In percent)

Commodity group	United States	Canada	EC-12	Other Western Europe	Japan	Australia	New Zealand	Developing exporters	Centrally planned economies	New industrial Asia	Developing importers
Producer price [1]											
Ruminant meats	7	8	27	41	59	18	16	11	2	5	11
Nonruminant meats	2	5	13	22	24	13	15	6	2	6	5
Dairy products	15	27	2	51	56	51	71	22	8	0	6
Wheat	44	18	44	35	87	17	37	11	8	8	21
Course grains	33	26	34	37	92	19	24	10	4	3	10
Rice	59	26	62	26	83	9	0	10	5	3	13
Oileeds and products	7	4	24	7	19	8	5	2	1	0	5
Sugar	69	29	20	48	60	31	53	17	5	11	19
Other crops	27	26	42	5	4	9	4	3	1	2	
Farm products	13	6	20	24	49	14	16	8	3	4	9
Production Quantity [2]											
Ruminant meats	4	3	15	24	13	8	11	5	0	1	4
Nonruminant meats	0	2	0	9	15	7	8	3	0	2	2
Dairy products	5	4	0	17	18	8	15	6	2	0	4
Wheat	6	3	16	13	61	10	23	2	1	2	6
Coarse grains	4	15	4	10	71	5	11	4	0	0	3
Rice	11	2	32	5	48	3	1	3	.....	0	
Oilseeds and products	2	1	16	1	16	0	9	0	0	0	1
Sugar	42	10	3	0	34	14	0	8	0	2	5
Other crops	7	5	11	26	0	1	7	0	0	0	0
Farm output	1	2	7	13	32	7	10	2	0	1	2
Agricultural gross domestic products [3]	16	18	16	5	6	35	47	21	20	17	25

[1] Producer incentive prices, including direct support payments (see Appendix D for model details).
[2] Value weighted quantity index.
[3] Value of farm production excluding support.
Source: Results from a SWOPSIM ST86 multilateral liberalization scenario produced by the authors for this report.

You will note that U.S. farmers would not be the only, or even the biggest, losers. Canadian, EC, and other Western European and Japanese farmers would also lose.

That study further estimates the loss to American sugar producers at $900 million with sugar imports increasing by 3.4 million metric tons.

An article authored by Mark Drabenstott and Alan Barkema, economists at the Federal Reserve Bank of Kansas City, and David Henneberry, an Associate Professor of Agricultural Economics at Oklahoma State, which appeared in the May 1989 Economic Review quotes a USDA study which puts the loss in income for all U.S. agricultural commodities at $5.39 billion dollars on an annual basis. The table, which appears below, shows other countries' farmers lose even more and a worldwide loss for agriculture of almost $29 billion.

Table 2.—CHANGES IN VALUE OF FARM PRODUCTION UNDER MULTILATERAL POLICY REFORM

[Millions of dollars]

Product	United States	European Community	Japan	World
Meat and eggs	+6,323	17,944	5,733	10,503
Dairy products	-3,707	-1,260	-1,289	-2,293
Food crops	2,278	1,187	-14,309	-12,213
Feed crops	2,119	2,074	-319	2,838
All commodities [1]	-5,390	-25,913	-22,019	-28,902

[1] In addition to commodities listed, totals include oilseeds and products and other miscellaneous crops.

Source: U.S. Department of Agriculture, Economic Review, May 1989.

Such studies are deeply disturbing. Also disturbing to our sugar producers is the fact that the two biggest importers of sugar, and of a number of other agricultural crops, the Soviet Union and China, are not parties to these negotiations and would not be bound by any of the subsidy or import restraint disciplines that will bind the developed economy members of GATT if our proposal is adopted. These two countries are currently responsible for 30% of the world's sugar imports. Both are in the process of reform. China has recently announced planned major increases in agricultural commodity prices to spur production. Soviet agriculture is the focus of reform. If Soviet sugar yields improve to equal just half the yield of EC producers, that alone would reduce their import demand to almost nil. Current Soviet yields are only 41% of the U.S. average for beet sugar. Last week Patrick du Genestoux, a noted French sugar analyst, was quoted as saying the Soviet Union has the ability to become self-sufficient and even a net exporter of sugar. He predicted a major drop in Soviet imports in the coming decade. A number of other countries which are major sugar importers are also not members of GATT and would not be subject to GATT disciplines. In all, more that 40% of current world sugar imports are by countries not members of GATT.

Our concern about those excluded from the GATT agreement is heightened by our earlier experience. In 1977 the U.S. was a participant in an International Sugar Agreement, an agreement which included all the world's major sugar exporting and importing countries at that time, including the Soviet Union. That agreement sought to stabilize prices and supply. The EC was not a member but it was not believed that would matter very much because they were not at that time either a major net importer or exporter of sugar. By 1983, when the agreement came to an end, the EC had taken almost ¼ of the world export market as a result of a high internal price support program which spurred domestic production. EC exports, plus a reduced U.S. demand as a result of HFCS takeover of our soft drink market, had devastated world sugar market prices. From a high of 65 a pound in late 1974, to a low of 2.6 in the summer of 1985, the so called world price of sugar declined to unprecedented lows, It has now recovered to a current price of about 14.5 a pound raw sugar FOB Caribbean ports.

That experience may be repeated. The world sugar market has been the most volatile of all the commodity markets, almost twice as volatile as the next most volatile in price, which is cocoa. It is possible that if countries increasingly buy and sell their sugar on that market it will become less volatile. It may indeed be likely, but there is certainly no guarantee—the kind of guarantee sugar producers need to make the necessary long-term big investments needed to produce and process sugar.

The Administration tells us not to worry. They will continue to protect sugar and other commodities which are now protected with quantitative restraints by means of a tariff rate quota, we are informed. A tariff rate quota would permit imports of our normal sugar needs now under quota, subject to a very low or no tariff and then place a prohibitive tariff on imports above that amount. That tariff would be bound at a rate based on the average difference between the world price and the domestic price for the years 1986 to 1988 or almost 13 per pound. It would work very much

like the current quota except that the prohibitive tariff level would be negotiated down to zero, or at least to a very low level, over ten years. If that reduced tariff level then proves inadequate and imports increased to more than 20% above the previous year's level then we would have a safeguard provision, a snap back to a previous prohibitive tariff level. Of course, if world prices were to fall to the 1985–86 level, the earlier tariff would still prove inadequate and we would be unable to defend the loan rate.

Even a 20% increase in imports would appear to make the present no cost sugar program inoperative and the resulting domestic price fluctuations would result in the forfeiture of sugar placed under loan to the CCC resulting in a cost to our government. We question the wisdom of such a change from the view point of the American producer, taxpayer and consumer.

In the case of sugar we are not even assured the ten year phase down period. The Administration's proposal promises special considerations to developing country exporters. The Special and Distinctive Treatment for Developing Countries includes special internal support and import access rules. "For products of priority export interest to developing countries the negotiations should seek to provide reductions in trade barriers and internal support policies by developed countries on an accelerated basis," states the proposal. Sugar is such a commodity. This section indicates that developing country exporters can look forward to accelerated access to our market and also continue internal support to its agriculture denied to our producers.

We have a further problem because of the measures which we are told will be utilized for determining the degree of progress, or the lack thereof, in the reduction of subsidy levels. I refer to the use of Producer Subsidy Equivalents (PSEs) and Consumer Subsidy Equivalents (CSEs). These indices purport to measure the percent of producer prices and consumer costs which result from subsidy practices and import restraints.

The latest Organization for Economic Cooperation and Development (OECD) Monitoring and Outlook Report has calculated the PSEs and CSEs for 13 agricultural products for the years 1984 through 1988. Their 1988 calculation is provisional.

The attached table lists the PSEs and CSEs for all OECD countries for the years 1985 and 1988 for sugar and for all agricultural products. You will note that the general trend in sugar is downward for both PSEs and CSEs, except for those economies experiencing a significant strengthening of their currencies. Overall, these measures reflect changes in the world price and in exchange rates rather than changes in support levels or in prices on the domestic market in local currencies. We note a 29% reduction in our PSE and a 60% reduction in our CSE for sugar from 1985 to 1988 without any change in U.S. policy or in domestic prices. For two U.S. commodities, milk and rice, the 1988 PSE exceeded that for sugar although three years earlier the sugar PSE was the highest. The PSE and CSE changes are to a very significant degree dependent on currency exchange rate and world commodity price fluctuations and changes in these measures are primarily in response to such fluctuations rather than to policy changes. This appears to seriously limit the usefulness of these measures as a monitoring device. Moreover, it is outrageous that EC subsidized exports which drive down the world price end up being counted as a subsidy to U.S. producers.

It is noteworthy that in three countries, the EEC, Finland, and Japan, the 1988 PSE exceeds that of U.S. producers while in four of the nine OECD economies, the above three plus Sweden, the 1988 CSE exceeds that in the U.S.—in the case of the EEC by more than three times the CSE for U.S. consumers of sugar. This change is the result not of policy changes but of changes in the relative strength of the dollar and the currencies of the other OECD countries. We are reminded once again that all that is necessary to increase export subsidies and access restraints is to devalue ones currency in relation to the currencies of its trading partners.

OECD PSEs and CSEs 1985 and 1988 [1]

Country	Sugar				All products (agricultural)			
	Percent PSE		Percent CSE		Percent PSE		Percent CSE	
	1985	1988 [1]	1985	1988 [1]	1985	1988 [1]	1985	1988 [1]
Australia	25	10	−99	−32	14	10	−11	−6
Austria	65	9	−189	−44	39	48	−44	−51
Canada	53	25	−16	−11	39	43	−34	−31

OECD PSEs and CSEs 1985 and 1988 [1]—Continued

Country	Sugar				All products (agricultural)			
	Percent PSE		Percent CSE		Percent PSE		Percent CSE	
	1985	1988 [1]	1985	1988 [1]	1985	1988 [1]	1985	1988 [1]
EEC [2]	76	71	−159	−150	43	46	−40	−42
Finland	88	86	−84	−79	67	70	−67	−70
Japan	76	74	−66	−70	69	74	−45	−53
New Zealand	([3])	([3])	0	0	23	8	−12	−6
Sweden	68	55	−65	−60	40	58	−41	−58
U.S.	80	57	−119	−47	32	34	−21	−16

[1] Provisional.
[2] 10 countries 1985; 12 in 1988.
[3] Not calculated.
Source: OECD.

Hopefully, you will now understand the reasons for our concern. We are discovering that it may not be enough to be world average, or even lower than world average cost producers, to survive in the world trading systems which are being proposed. We appear instead to be negotiating changes which will severely disadvantage most U.S. farmers and certainly U.S. sugar farmers, who are no less efficient than other farmers while injuring American agriculture in the aggregate. I know there are those who claim it will benefit the country as a whole and that economic benefit will permit us to provide increased assistance to those farmers in real need of help, but I see no plan which, within our political system and Federal budgetary restraints, will provide that income support for our farmers.

I have addressed only some of the special handicaps which we fear will be imposed upon us as a result of Administration success in these negotiations. Not addressed, but certainly worthy of consideration and of concern as well, are the special burdens which are imposed upon U.S. producers by our government and our society. These include labor, environmental, safety and health and transportation standards. Is it really our purpose to make retention of those higher American standards impossible or even to make their further improvement more difficult? American agricultural workers are deserving of an American wage, of American safety and health standards and of an American standard of living. And American agricultural producers are no less deserving than their urban counterparts of economic opportunity and the concern of their government.

PREPARED STATEMENT OF REGGIE WYCKOFF

Mr. Chairman and Members of the Trade Subcommittee: Thank you for this opportunity to present the views of the National Association of Wheat Growers regarding the implications for agriculture in the Uruguay Round of GATT. I am Reggie Wyckoff, President of the NAWG. My family and I operate a wheat farm near Genoa, Colorado.

The NAWG firmly believes that a reform of international agricultural trade is needed at this time. We applaud the herculean efforts of the U.S. negotiators in Geneva and Washington for formulating such a comprehensive plan for reform. Over time trade distorting subsidies have resulted in depressed world wheat prices, burdensome supply situations, and heightened trade tensions between allied industrial nations and the developing countries. Clearly, the only way to bring these mechanisms under control is through strengthened GATT disciplines.

The NAWG supports the long-term objective of the Uruguay Round that was reached in April of this year. Namely, to achieve substantial progressive reductions in trade distorting policies A staged arid simultaneous reduction in all agricultural support mechanisms as outlined in the in U.S.' most recently tabled working plan, seems to be an orderly arid equitable means by which to correct and prevent restrictions and distortions that have hitherto skewed world agricultural trade.

That said, the NAWG recognizes that a great deal is at stake in the Uruguay Round. Success in the GATT will mean significant changes in the shape of in U.S. agriculture and the price support and income protections which have been a part of domestic farming for over half a century. I will not mislead you, farmers are leery of proposals that promise radical changes. In particular, farmers are skeptical about the concept of decoupling which, as we see it, would mean giving producers pay-

ments that are not tied to production, set-aside, or conservation requirements. There is effectively no support among farmers for this notion.

The Administration's proposals are bold, however, it is impossible for farmers to know or to judge how these theoretical changes will affect them, their farming practices, their incomes or their futures. Much of what the U.S. has proposed will prove politically difficult to put into action both here in the U.S. and abroad. We understand that every aspect of the October 25 paper is subject to negotiation. The interests of the U.S. wheat grower, however, are not subject to negotiation. We will only support multilateral liberalization of agricultural trade. U.S. wheat producers need to be assured that their economic stability will not be traded away to achieve someone else's objectives.

World agriculture trade is at a crossroads and now is not the time to let our vigilance lapse by backing down. The U.S. has fourteen months left to chisel out a workable plan in the GATT to put substantial progressive reductions on course. In that time, the U.S. needs to adopt an aggressive export stance by more fully implementing the export enhancement program. The EEP represents a very powerful export trade policy tool. A strong EEP is the NRWG's best guarantee that other countries will come to the GATT negotiating table in good faith.

Mr. Chairman, members of the committee, I thank you for the opportunity to testify. I will be pleased to respond to your questions at the appropriate time.

COMMUNICATIONS

STATEMENT OF THE AMERICAN MEAT INSTITUTE

The American Meat Institute welcomes and appreciates this opportunity to present testimony to the International Trade Subcommittee of the United States Senate Committee on Finance. AMI is the largest national trade association representing the meat packing and processing industry. Our membership includes approximately 425 general and 550 associate members. Gathered in the Institute are both large and small operations that slaughter beef, pork, veal and lamb; processors that manufacture every variety of processed meats; sausage manufacturers; jobbers and suppliers. Our members slaughter and process more than 90% of the nation's meat products. AMI memberships reach into all 50 states and into other nations, too. Headquartered in Washington, D.C., the Institute conducts economic and scientific programs and provides consumer, public and government relations services on behalf of the meat industry.

AMI is vitally interested in the Uruguay Round market access negotiations focusing on the reduction or elimination of foreign tariff and non-tariff measures. The purposes of our testimony today are to provide an overview of our approach to the subjects being discussed in the Uruguay Round and to assist in the identification of specific problems and opportunities with which our negotiators will be confronted during the remainder of the Round.

Our industry is a large and fast-growing exporter. Last year, U.S. exports of beef, pork, mutton, lamb and variety meats totaled more than $1.8 billion, or 594,291 metric tons. This represented a 46% increase in value of exports, and 27% in volume increase, over the previous year. It may be interesting for you to know that whereas just eight years ago only 0.5% of domestic high-quality beef went into the export market, by 1988 the figure had grown to 3%. A successful conclusion of the Uruguay Round, with removal of highly restrictive trade barriers, would afford the meat industry the opportunity to increase its international trade several times over. A few examples document this potential. Meat export analysts see growing European market potential for American beef in the United Kingdom and the Netherlands, and for pork in the Netherlands, Sweden and Denmark. Variety meats, absent the "hormone ban," have great potential in Europe. In Asia, Taiwan, Hong Kong, Thailand and Singapore are each markets for our product. The Japanese connection is already very significant, but here too the opportunities for trade enhancement are clear, certainly in the range of at least 50% over the next few years. In the Caribbean, the United States meat industry could increase its market share tremendously because of the rapidly growing tourist industry. Aruba, Curacao and the Dominican Republic offer promising markets for beef, pork and processed meats, and variety meats could do well in Jamaica, Trinidad, Barbados and the Dominican Republic.

Given the slow projected growth in home-market demand for American meat and other agricultural products, foreign sales are expected to be the principal source of future market growth across the wide agricultural spectrum. Our overall economy has a significant stake in the farm community's export successes. It is estimated that every dollar earned on agricultural exports creates up to $3.00 worth of additional output, reflecting the contribution of a range of supporting activities required to package and transport products to the point of delivery. This multiplier effect creates up to 25,000 jobs for every $1 billion of exports. Conversely a decline in exports has a proportionately negative effect an output, jobs, and the general economy.

It is a generally-accepted economic maxim that as incomes around the globe increase, people's demand for meat increases. A "positive income elasticity" is the name economists give this phenomenon.

In remarks before the Seventh Annual World Meat Congress in Paris last year, former Assistant Secretary of Agriculture for Economics Ewen M. Wilson noted that:

> Over the past three decades, this increase in demand for meat has translated into a global increase of meat and poultry production averaging almost 3% per year. . . . (A)ssuming a continued 2 to 3 percent annual increase in the global market, there will clearly be opportunities for meat production and trade. Liberalization will enhance these opportunities, not only for meat production and trade, but also for grain production and trade.

The American Meat Institute has consistently encouraged the evolution of fair and free international trade. Our overarching philosophy translates into:

(1) opposition to quantitative restrictions, both tariff and non-tariff trade barriers erected by other countries for the purpose of inhibiting the export of U.S. meat products;

(2) opposition to subsidies provided by foreign governments which distort trade in their home markets, third country markets, or the United States;

(3) opposition to other unfair trade practices such as dumping; and

(4) opposition to the use of spurious and unscientific health and sanitary claims as rationales for erecting still more trade barriers; and

(5) AMI commitment to take and encourage all feasible action to combat unfair trade practices and to support appropriate and justified remedies. Some of these remedies are to be sought in multilateral forums such as the General Agreement on Tariffs and Trade; others are preeminently bilateral in scope.

Many of the trade problems discussed in this testimony cannot wait upon the completion of the Uruguay Round. More than that, failure to see these bilateral problems through to successful resolution only diminishes the prospects for achieving longer-term GATT objectives. Our credibility in the multilateral arena hinges importantly on whatever credibility we achieve in overcoming these bilateral problems. On this bilateral level, trade negotiations should be seen less as the design of far-reaching legal regimes and more the practical resolution of problems. It may be necessary in some instances for the U.S. government to concern itself less with pure trade principles and more with practical and creative solutions, in order to prevent both short- and long-term market loss. Sometimes there is no international book to go by in responding to the barriers we face. Sometimes, we are on our own.

No trade problem has compelled so much attention this year as the "hormone ban" promulgated by the European Economic Community. While an "interim" agreement was announced earlier this year in an effort to address the problem, the hormone ban is as far away from resolution today as it was when it took effect last January. The interim agreement provided little more than the theoretical opportunity for US shippers to provide so-called "hormone free" product to the EEC. In short, the dictates of the EEC ban continue to foreclose the vast bulk of the Market to our shippers. Compliance with its strictures is not economically viable. It is clear that the Community has violated the rules of international trade and the violation remains in place. The doors to commerce have not been opened. The principle has not been resolved. The principle is that the United States cannot condone or accept the use of phony health and sanitary rationales to erect barriers against our products.

The "hormone ban" is not a singular incident. Regrettably, it is part of a long-running pattern of EEC actions adversely affecting meat and other products. In April 1987, for example, the EEC implemented its "Third Country Directive" imposing costly compliance standards on US plants shipping to the community. Many standards were arbitrary in the extreme; worse, the standards imposed on our facilities were often considerably more rigorous than those imposed within the Community. Substantially less than half of EEC meat production is subject to the standards imposed on the United States. Anti-competitive in intent, the Third Country Directive achieved anti-competitive results, precluding most American plants entry into the EEC market. Those which did comply, at a cost of millions of dollars, shortly thereafter found themselves shut out by the hormone ban.

We hope these and numerous other EEC actions are not symptomatic of the problem of doing business in the new Europe. But they certainly send a foreboding signal to other American businesses wishing to trade with the Community as 1992 approaches. Should they be permitted to stand, other businesses will also feel the cold hand of protectionism upon them. Keep in mind that the implications go far beyond Europe, because if the EEC is allowed to impose such groundless limitations as the hormone ban against American products, what is to stop other countries from similar restrictions?

It is therefore our hope that the government of the United States will hold tenaciously to the principles at stake in these disputes. We should not allow the EEC to nibble around the edges in our retaliation against the hormone ban. Retaliation should remain in place until the ban comes down. Regarding the Third Country Directive, some weeks ago the American Meat Institute joined other members of the Meat Industry Trade Policy Council in urging that the United States Government press to take the Section 301 complaint, filed in 1987, to a GATT panel.

Another important bilateral dispute affecting our industry involves the Republic of Korea. AMI is pleased that a GATT panel has ruled in favor of the United States, following the AMI-initiated Section 301 trade complaint against the quantitative restrictions imposed against beef by Korea. We hope for a practical solution which will eliminate the restrictions on US beef going to the Korean market. Numerous other impediments, going beyond the quantitative restrictions, need also to be addressed. These other impediments include the monopolistic implications of the Livestock Products Marketing Organization; a host of bid, bond, and performance requirements; and other stipulations associated with the shipment of product to the Republic of Korea. This is a case wherein demonstrated US rights have been impaired; wherein the impairment has been recognized by the GATT panel; and wherein there should be no questioning the advisability and propriety of using the full authority of our government to remedy the problem.

Late last month, the United States Trade Representative determined that American trading rights had been denied by the Republic of Korea and stated further that the appropriate action to take would be to suspend the application of GATT tariff concessions with respect to Korea, affecting products of Korea in an amount equivalent in value to the restriction placed on the commerce of the United States. USTR has directed that a list of potential products upon which to impose increased duties be published in the *Federal Register* by mid-November 1989 for public comment, "if by that time substantial movement toward a resolution of this matter has not occurred." AMI notes the requirement under Section 301 that mandatory action be taken in response to the unfair foreign practice.

It is AMI's hope that the Korean government will negotiate seriously an end to its unfair and unjustifiable practices. Thus far, unfortunately, such serious discussions have not taken place. AMI would much prefer a negotiated solution instead of retaliation. A negotiated solution is in the best interests of the United States and Korean governments and industries. We point out, however, that absent such an agreement, the requirement of the statute is clear. The exceptions to mandatory action such as the specter of serious harm to national security or an adverse impact on the United States economy substantially out of proportion to the benefits of such action, do not apply in this case.

With respect to the nature of the action to be taken, AMI has just a few recommendations. First, in estimating the damage done to the US meat industry as a result of Korean restrictions, the USTR must consider more than the volume and value of US exports to Korea immediately preceding imposition of the import ban in 1985. Indeed, even before the outright ban in 1985, Korean restrictions on beef imports hampered US export efforts. Second, the USTR should consider both the volume and price effects of the Korean restrictions. In addition, the lost opportunities for US exporters to develop the Korean market should be considered. For example, the US Meat Export Federation estimates that he value of the Korean beef market will rise from over $63 million in 1989 to approximately $313 million in 1994. USTR should use these amounts in deciding what action should be taken, including developing a list of possible retaliatory measures.

Concerning the Uruguay Round, AMI is vitally interested in the market access negotiations focusing on the reduction or elimination of overseas tariff and nontariff measures. Of all the items on the GATT agenda as the Uruguay Round moves on, none has greater importance in our eyes than the challenge of harmonizing GATT sanitary and phytosanitary standards and regulations. We noted with approval the inclusion of sanitary and phytosanitary language at the April Mid-term review. While encouraged by the apparent willingness of GATT members to tackle this very serious issue, we caution that a long road rises ahead. The agreed language leaves many miles yet to travel before we even approach a viable solution. Nevertheless, we support the commitment of the United States government to lead our trading partners to an agreement in this critically important area. Unresolved, these sanitary and phytosanitary restrictions would become the most pervasive trade barriers of all in the decade ahead.

There is broad meat industry agreement that harmonization of phytosanitary regulations consistent with the standards of the Codex Alimentarius Commission and other internationally-recognized standard-setting bodies is essential. The use of such

bodies as clearinghouses for all standards should help depoliticize the formulation of these regulations and minimize the implementation of rules totally without scientific justification.

Protectionism is alive and, unfortunately, well in the global economic contest. Annual U.S. trade deficits in the $120 billion–$140 billion range for as far as the eye can see attest to our inability thus far to contest it successfully. America's slide from international net creditor to international net debtor is imposing serious constraints on our ability to implement the economic and political goals which have guided the nation's policy in the 44 years since the guns of the Second World War fell silent. It is amid this perilous trade environment that the Uruguay Round takes place. Its challenge to encourage the free and unfettered movement of international commerce can only be described as sobering in its complexity.

The need to hold our trading partners' feet to the fire as we attempt to develop a better system of world trade is clear. In this regard, AMI expresses its strong support for such initiatives as the U.S. Export Enhancement Program, unless and until there is mutual, reciprocal progress in the dismantling of such practices. Reducing unilaterally initiatives like Export Enhancement and the Targeted Export Assistance Program would send precisely the wrong message to our trading partners. Without these programs, it is doubtful that the United States could coax a quorum to any bargaining table.

Nor should the trade law tools provided by the Congress to the Executive go less than fully implemented, while negotiations proceed. We will never get "from here to there" in prying open the doors of world commerce on a one-way street of giving-in and giving-away. Congress has provided the Executive branch with a considerable inventory of trade statutes to help extract reciprocal treatment from our present and potential trade partners, including the wideranging Trade Act of 1988. Even more recently, initiatives such as S. 1746, designed to address the problem of agricultural trade liberalization in the event that the Uruguay Round fails, have been introduced. All these actions send the message of America's seriousness of intent in opening wide the doors of world commerce.

AMI expresses its gratitude to the subcommittee for this opportunity to share some of our trade thoughts and concerns with you. We stand ready, and look forward, to working with the Congress on all these matters in the critical months ahead.

Statement of Blue Diamond Growers

(SUBMITTED BY STEVEN W. EASTER, VICE PRESIDENT, MEMBER AND GOVERNMENT RELATIONS)

I. INTRODUCTION

This statement is being filed by Blue Diamond Growers to underscore the need for Uruguay Round reform in almond trade. Blue Diamond Growers is a cooperative marketing one-half of U.S. almond production for its 5,000 grower-members.

In several Administration hearings held to date to discuss the Uruguay Round proposal for agriculture, Blue Diamond has gone on record strongly endorsing the U.S. negotiating position. Global distortions in almond trade can be found in virtually every major export market, primarily in the form of access restrictions and internal supports. Comprehensive reform can best ensure a lasting competitive role in the world market for U.S. almonds and almond products. If such reform can not be achieved quickly, however, Blue Diamond would encourage the Administration and U.S. Congress to rely upon aggressive bilateral measures to secure near-term access liberalization for industries such as the U.S. almond sector that are in continuing need of export expansion.

Set forth below for the Committee's record is a more detailed description of the California almond industry's export dependency and the world-wide trade distortions that are restricting export growth.

II. THE CALIFORNIA ALMOND INDUSTRY

Virtually all of the almonds commercially produced in the United States are grown in California. More California farmland is devoted to almonds than to any other orchard crop. California almond acreage has increased significantly in recent years, doubling between 1966 and 1986. In 1989, the bearing acreage of California almonds was estimated by the California Crop and Livestock Reporting Service at

402,000 acres. The subsequent five year period will see increased production potential as large acreage mature to prime bearing age.

As a result of new acreage and improved growing techniques, the California almond crop increased more than three-fold between the years of 1973 and 1988. This dramatic change in production is shown in Table I.

Table 1

Year	Production million lbs shelled basis
1970–74 (average)	168
1975–79 (average)	268
1980–84 (average)	381
1985	465
1986	251
1987	660
1988	590
1989 (estimated)	425

Source: *Statistical Tables*, Table 1, Almond Board of California, August 1989

The U.S. supplies nearly 70 percent of the average world's almond crop placing almonds as California's leading food export and the sixth largest U.S. food export. In the past decade, there has been a fairly steady ratio in the almond industry of 65 percent exports to 35 percent domestic sales. In 1988/89, the industry generated nearly $600 million is export earnings and $300 million in domestic sales, with a total sales value of $900 million. In short, the industry is highly significant to the U.S. economy and balance of trade.

The tremendous potential for expansion of U.S. almond exports is in many cases thwarted by very substantial trade barriers, as outlined in the following information. It is essential that every effort be made by the United States Government to eliminate these trade barriers and to foster trade in almonds with the countries identified herein, few of which are producing almonds.

Priority attention is urged to be given to the trade barriers which are restricting U.S. almond exports to the European Economic Community, India, Korea, and Egypt. In addition, a dramatic expansion of almond exports could occur with elimination of trade barriers in the following countries: Argentina, Brazil, India, Japan, Kenya, Mexico, Pakistan, People's Republic of China, and Venezuela.

Numerous other countries impose trade barriers, the elimination of which could result in significant increases in U.S. almond exports. Listings in the following pages are given alphabetically, not necessarily in the order of importance to the industry. The detailed documentation which follows identifies by country all the trade barriers of concern to the U.S. almond industry.

III. TRADE BARRIERS IMPOSED BY VARIOUS COUNTRIES

Argentina

Import Licensing.—Licenses for almond importation are very difficult to obtain and hard currency is quite expensive. Only an Argentine importer can obtain an import permit, a procedure which takes 5–6 days.

Tariffs.—The official rate for fresh U.S. almond imports (based on landed value) is 20 percent. In addition, there is a 3 percent statistical tax and a .50 percent National Export Promotion Fund. This contrasts sharply with ALADI almonds imported at a reduced rate of 12 percent. Potential export increase if trade barriers are removed is between $5–$25 million.

Australia

Tariffs.—A 10 percent ad valorem duty (based on FOB value) is levied against shelled and inshell almonds, whether fresh, dried, roasted, bulk or canned. Potential export increase if trade barriers are removed is up to $5 million.

Brazil

Tariffs.—A 40 percent tariff (based on CIF value) is listed for both inshell and shelled almonds. This rate is excessive, particularly since the U.S. provides duty-free access for like products from Brazil. Preferential access for almond imports is given to countries in the Association Latino Americana de Desarollo Industrial (ALADI).

ALADI countries have tariffs of only 9.6 percent for shelled almonds and 6.8 percent for unshelled which creates a large price disadvantage against U.S almonds.

Import Licensing.—Brazil maintains restrictive licensing procedures and an excessive ad valorem tariff that are inconsistent with provisions of international trade law and burdensome on U.S. almond imports. Only importers who have an import allowance may obtain licenses which must be obtained before shipment embarkation. Additionally, CACEX regulations specify that the importer may pay cash for the first U.S. $200,000 worth of commodity. The balance payment is due 90 days from the bill of lading date. High interest rates as well as current economic uncertainties often make this condition undesirable. Potential export increase if trade barriers are removed is between $5–$25 million.

Peoples' Republic of China

Tariffs.—The 100 percent tariff applied to almonds is a great deterrent to almond trade in China.

Foreign Exchange Controls.—Concerns exist for the almond industry regarding foreign exchange practices in PRC. In the past, China has not freely allowed their foreign exchange to be used for purchasing almonds. Joint ventures are virtually impossible to implement as private importers cannot obtain foreign exchange. Chinese government officials are the only individuals able to handle foreign exchange. The procedures to secure foreign exchange using the government channels are obscure and not easily followed. This practice has prohibited any significant sales to China. Potential export increase if trade barriers are removed is between $50–$100 million.

Egypt

Import Licensing.—Only $5 million of hard currency was allocated for dried fruit and nut licenses in 1985, a significant reduction from the $40 million allocated in 1984. No private sector almond import licenses were issued for the 1986 marketing season. This extreme position was the culmination of a pattern of increasingly restrictive unfair trade practices on the part of the Egyptian Government.

In 1987, licenses for a negligible quantity of approximately 40,000 pounds of U.S. almonds were reportedly issued. Only end-users such as chocolate manufactures were to have received licenses, and then for quantities of not more than 10,000 pounds per license. It is not commercially feasible for U.S. exporters to ship such small quantities.

In the past, the Government of Egypt asserted that licenses were available on a limited basis. However, the practical application of the license scheme had the effect of virtually excluding almonds. For example, in recent years the Egyptian Government has claimed to make private-sector licenses available for shipment during Ramadan. In actual practice, the licenses were not effectively issued until a date about two weeks before Ramadan, with the requirement that goods should arrive before the end of Ramadan. The life of the license was thus limited to about 30 days. Transit time alone amounts to 37–45 days. Including the time it takes to obtain a Letter of Credit, a period of 54–60 days ordinarily elapses before an almond shipment can be in an Egyptian port.

U.S. almonds are being virtually excluded from the important Egypt market. This unfair trade practice cannot be tolerated. The U.S. Government must not tolerate Egypt's arbitrary and restrictive policies and should insist that Egypt immediately establish Open General Licensing for almonds. From past experience it is evident that to settle for less would be of little benefit to the U.S. almond industry.

Tariffs.—If almonds are allowed to be imported, a exorbitant tariff of 70 percent ad valorem is applied. Potential export increase if trade barriers are removed is between $5–$25 million.

European Economic Community

Agricultural Product Subsidies.—In late January 1989, the European Economic Community (EEC) Council of Foreign Agricultural Ministers approved a tree nut proposal as part of the Common Agricultural Policy (CAP). The proposed five year fund level of $270 million per year will begin in 1990 for the purpose of improving the production and marketing of almonds.

The U.S. Government and almond industry are deeply concerned about the effect production incentive will have on the market. The global almond market is already in a situation of serious over-supply. Surges in Spanish almond production will be detrimental to all world suppliers, and particularly disruptive to U.S. trade within the EEC.

Tariffs.—Successful negotiation of the Citrus/Pasta Agreement with Europe was a valuable step for the almond industry. The Agreement was implemented as of

January 1, 1989, which resulted in a reduction of the almond duty from seven to two percent ad valorem for the first 45,000 metric tons. Even so, the objective is still to obtain a zero duty on all EEC almond imports so U.S. producers are able to reach parity with European producers.

Roasted and other prepared almonds are subject to high tariffs which though slightly reduced for a limited time still represent unfair barriers to trade. The temporary rates, effective until January 31, 1991, are 14 percent ad valorem for prepared almonds shipped in packages larger than one kilogram, and 12 percent for packages of one kilogram or less. All efforts should be made to insure that these rates are reduced after this date. Elimination of the duties on fresh and processed almonds would result in an annual increase in U.S. exports of almonds of $5–$25 million.

India

Tariffs.—The shelled almond tariff is 50 rupees per kilogram which translates to a 136 percent tariff. The inshell almond tariff is 28 rupees per kilogram which translates to a 79 percent tariff. These tariffs deny equitable and reasonable access, particularly for shelled almonds.

The assertion is made that importation of products classified as "luxury" items must be restricted. This classification is arbitrary, for other products which are true luxury items, such as certain spices, are imported under Open General Licensing. Almonds would not be a luxury item but for the extreme price inflation which results from unfair import policy. In the absence of trade barriers, almonds would be at the same price level as powdered eggs, a staple in a poor Indian's diet.

Import Licensing—In 1981, the Government of India discontinued Open General Licensing and placed dried fruit and nuts on a list of restricted imports. As a result of an industry-filed Section 301 action, India agreed to change its Dried Fruit Import Policy which is effective from 1988-1991. Total almond import licenses are set at $20 million per year during this three year period with opportunity to expand after 1991. Currently, application for import licenses have to be supported by proof that the applicant has exported 50 percent of the value of the license. In 1990/91, the applicants will have to prove that 100 percent of the license value has been exported.

Faced with these new regulations, minimum license holders are requesting larger exporters to do the shipping paperwork in the license holder's name for a fee of 5–10 percent. This transaction ensures the license holders have documentation to support their required percentage sale of the license value.

The changes introduced by the new Dried Fruit Import policy do not eliminate the numerous trade restrictions India continues to maintain the highest almond tariffs in the world. The current licensing agreement expires in 1991. Open General Licensing and greatly reduced tariffs still need to be achieved.

Given free market conditions in India, importers conservatively estimate the potential long-term market for annual U.S. almond exports to be $100–$500 million. These projected levels are conservative, representing only one-tenth of a pound per capita for the Indian population (U.S. consumption is .71 pound per capita.) Greater per capita consumption is anticipated given the cultural value placed on almonds by Indian people.

Indonesia

Import Licensing.—Almonds are included on the Department of Trade's restricted list of import goods which limits the entry of almonds into Indonesia to two state trading companies. It is extremely difficult to build a competitive market under these conditions. A commitment to Open General Licensing must be bound under GATT.

Tariffs.—Even though Indonesia does not produce almonds domestically, the importation of almonds is restricted by a tariff of 30 percent. The potential export increase if trade barriers are removed is up to $5 million.

Israel

Tariffs.—A 15 percent ad valorem import duty persists in spite of the U.S.-Israel Free Trade Agreement. Under the Agreement, the U.S. duty on Israeli almonds was immediately staged to zero, yet the Israeli duty on U.S. almonds will not be reduced to zero until 1995.

Variable Levies.—A variable levy exists which is linked to a domestic price support system. The Israeli Government used this scheme and others to more than double U.S. almond import charges in one single year.

Import Deposit.—Importers are required to provide an import deposit of 60 percent which the government keeps for 12 months. The import deposit was increased

well after the Free Trade negotiations were under way. Thus, the Israelis were erecting additional trade barriers while at the same time negotiating for the reduction of U.S. tariffs. In terms of real access to the market, the eventual duty-free status for U.S. almonds will be meaningless unless Israel is forced to eliminate unfair nontariff barriers to trade. Potential export increase if trade barriers are removed is up to $5 million.

Japan

Tariffs.—Scince Japan does not produce almonds, no almond tariff should exist. However, U.S. imports of fresh, dried, shelled, or inshell almonds are subject to a 4 percent ad valorem tariff. Roasted almonds incur an 8 percent ad valorem charge. Potential export increase if trade barriers are removed is $5-$25 million.

Kenya

Tariffs.—Even though Kenya does not produce almonds, an unreasonable tariff of 50 percent ad valorem is levied against this quality protein source. The tariff applies to both fresh and processed almonds.

Import Licensing.—Licenses must be obtained for almond exports from the Ministry of Commerce and Industry, and foreign exchange allocation is required. Potential export increase if trade barriers are removed is between $5-$25 million.

Korea

Tariffs.—Almonds are subject to a high 35 percent tariff.

Customs Practices.—Korea imposes certain commercial practices which serve to discourage almonds imports.

Cumbersome offer procedure—Every offer made to Korean buyers must be notarized. A proforma invoice offer procedure is required in order to get an import license.

Currency restrictions—Each letter of credit is subject to government approval.

Excessively slow customs clearing—Korean customs authorities discourage almond imports by taking three weeks or more to clear shipments over the docks.

It is estimated that an improved Korean trade climate which would include elimination of the tariff would result in increased U.S. almond exports in the near term valued at $5-$25 million. Over the longer term, we would anticipate market development in Korea to parallel that in Japan, which would mean annual sales as high as $40 million once the total population is introduced to almonds.

Mexico

Tariffs.—Tariffs are in place which serve to restrict the quantity of U.S. almonds which can be exported to Mexico. The tariff rates, based on invoice value, are 20 percent for shelled almonds and 15 percent for inshell. A great need exists to reduce the present tariffs on almonds to make them as affordable a commodity for Mexicans as possible. It is estimated that elimination of the tariffs would result in increased exports of U.S. almonds valued at $5-$25 million.

Pakistan

Tariffs.—The 135 percent tariff consists of a 100% duty, 12.5 percent sales tax, 5 percent surcharge, 6 percent school tax, 2 percent insurance, and 2 percent income tax for a total of 135 percent. It is estimated that elimination of the unfair trade barriers would result in increased U.S. exports valued at $5-$25 million. Equal access must be obtained for U.S. almond exports to compete with the other almonds smuggled into Pakistan.

The Philippines

Import Licensing.—Almonds are classified in the "non-essential" consumer (NEC) category. U.S. negotiators must press for removal of almonds from the NEC list and ensure that almond licenses will be freely available in years to come.

Tariffs.—The Philippines, a nonproducer of almonds, imposes an unwarranted, excessive almond tariff of 50 percent. The Philippines has long been a major beneficiary under the Generalized System of Preference, yet refuses to grant reciprocity for U.S. almonds. It is estimated that trade valued up to $5 million is being lost due to the Philippines' unfair trade barriers.

Thailand

Tariffs.—In event that an importer can obtain a license to import almonds, the price of product is impacted not only by cost of the license but also by unreasonably high tariffs. The tariff is 60 percent ad valorem (based on CIF value) or 50 baht per

kilogram, whichever is higher. In addition to this excessive tariff, an import charge is levied at a "standard profit rate," which for almonds is 16 percent of ad valorem or baht rate. A nine percent "business tax" is assessed on the standard rate of profit.

Standards Testing, Labeling Certifiwation.—Nuts are treated as luxury items and can only be imported under licenses issued by Thailand's Food and Drug Agency within the Ministry of Public Health. Issuance is discretionary, and import licenses are not freely granted. In addition, the licenses are reportedly very expensive, costing a minimum of 15,000 baht (approximately $580.00). If the products are imported in sealed containers, the importer must apply for recipe registration which adds 5,000 baht to the cost of the license.

In spite of excellent potential for market expansion, U.S. almond exports to Thailand continue to be unfairly restricted. It is estimated that elimination of the trade barriers outlined above would generate additional annual almond exports valued at less than $5 million.

Venezuela

Tariffs.—Almonds are now subject to a 80 percent tariff. Tariffs and foreign exchange restrictions have cost one U.S. almond company $4 million in lost sales each year.

Import Licensing.—Importers no longer need to get an import license from the government nor approval from the government agency, Recadi, to buy U.S. dollars. However, importers have to buy dollars at the free exchange rate of 38 Bolivars instead of the 14 Bolivar rate set in past years. Potential export increase if trade barriers are removed is less than $5 million.

IV. CONCLUSION

The U.S. almond industry has dedicated substantial resources towards achieving liberalized access worldwide through bilateral and multilateral efforts. The growth of the almond industry is one of the real success stories of U.S. agricultural trade. This success can continue and expand with negotiation of better access for U.S. almonds in these countries which represent the most promising, but restrictive markets throughout the world. Because the majority of these markets cannot grow almonds and none are self-sufficient, there is no justifiable basis excluding U.S. almonds. with diligence, U.S. negotiation should be able to achieve improved access in these markets, significantly expanding opportunities for U.S. almond exports.

Removal of the aforementioned practices will stimulate world trade in almonds and enhance the U. S. balance of payments when U.S. negotiation is successful in attaining appropriate treatment of almonds in these countries, a potential increases in U.S. trade of nearly $200 million is expected to be realized.

Statement of the California Cling Peach Advisory Board

(SUBMITTED BY THOMAS P. KRUGMAN, GENERAL MANAGER)

The California Cling Peach Advisory Board ("the Board") submits the following written comments pursuant to the Senate Finance Subcommittee's request for private sector comments on the progress made to date in the Uruguay Round on agriculture and actions to be taken in the event an MTN agreement on agriculture is not achieved.

The Board is organized under the California Marketing Act of 1937 and operates under the authority of the California State Director of Food and Agriculture. The Board represents all 750 producers and nine processors of cling peaches in the State of California. Much of the Board's work is targeted towards promoting the sale of California cling peach products, both at home and abroad. California is responsible for virtually all of the nation's cling peach production.

The Board submits these comments in support of the United States' position on agriculture and to inventory for the Committee's record the range of trade barriers facing the cling peach industry in export outlets. The number and extent of these trade concerns manifests the need for achieving comprehensive global reform.

I. THE CALIFORNIA CLING PEACH INDUSTRY SUPPORTS THE UNITED STATES' URUGUAY ROUND POSITION ON AGRICULTURE

In hearings before the Trade Policy Staff Committee and the Internal Trade Commission, the California cling peach industry has repeatedly supported the United States' formal Uruguay Round position on agriculture that is, that no U.S. agricul-

tural tariffs will be eliminated until a global, comprehensive commitment has been reached to eliminate all trade-distortive agriculture practices.

The U.S. cling peach industry is confident it would be competitive in a global market place devoid of all trade-distortive measures. In such an environment, U.S. cling peach products could successfully compete on price and quality with all global peach producers. Until free competition is achieved, however, the U.S. tariffs applied to imports of cling peaches and competitive products should not be modified.

Under no circumstances does the industry support special and differential treatment for developing countries. The United States has fulfilled its Punta del Este commitment to developing countries through implementation of concessions on tropical products. Further, preferential concessions to developing countries will defeat or dilute the call for global agricultural reform, particularly since many developing countries are economically advanced in agriculture and are themselves engaged in distortive agricultural practices.

In the event an agreement on agriculture is not achieved, the industry urges intensified use of bilateral tools, such as Super 301, to force foreign trading partners to the negotiating table. Having had a decade of experience with Section 301 recourse, the industry endorses Super 301 authority, particularly in the context of Korea's restrictive agricultural policies, as a way of achieving reform.

II. FOREIGN TRADE PRACTICES REQUIRING LIBERALIZATION

Unless immediate measures are taken to eliminate the massive subsidization of foreign producers and to relax restrictive access barriers, the U.S. cling peach industry will continue to be displaced in important outlets at home and abroad. The industry is counting on global reform in the Uruguay Round to eliminate these trade-distortive practices. A description of the trade concerns of highest priority is provided below.

A. European Economic Community

Over the past decade, the U.S. cling peach industry has struggled with dislocation from low-priced subsidized EEC canned peaches and fruit cocktail that benefited from GATT-illegal processing aids on canned peaches and pears. In 1981, the California cling peach industry sought relief from the illegal processing subsidies under Section 301 of the Trade Act. Despite a favorable GATT ruling in 1984 and a negotiated agreement in 1985 under which the EEC was to eliminate its processing aids by the 1987/88 marketing year, the Community continued to subsidize its industry throughout 1988 and into 1989. Finally, under the threat of retaliation, a settlement was reached this past summer (June 1989) under which the EEC agreed to eliminate its processing aid. Although this will hopefully put an end to future subsidization in this area, U.S. officials are not clear when, or even if, it will correct the global disturbances, estimated at approximately $10 million annually, caused by a decade of illegal subsidization. Still benefiting from the effects of GATT-illegal aid, Greek canned peach prices remain nearly $3.00 a case below U.S. domestic prices.

Recently, the industry has learned of two additional government programs that were not the subject of its 301 case. The first is the EEC withdrawal program, used in a variety of horticultural commodities, which enables growers to recover a price, near cost, if surplus product is withdrawn from the market and destroyed or used for other purposes, such as liqueur production. This year, Greek growers have withdrawn 200,000 metric tons of freestone and cling peaches from the market out of total output this year of about 600,000 metric tons.

The other program is a Greek loan program under which the Greek agricultural Bank covers 100 percent of the operating costs of Greek processors. Coops receive reduced interest rates of between 16 and 18 percent, compared to commercially available rates of between 23 and 27 percent. These programs are reportedly helping to keep Greek growers in the business of growing cling peaches.

B. Canada

Since 1980, sales of canned peaches and fruit cocktail to the Canadian market have steadily dwindled due in most part to increased competition from unfairly subsidized sales of peaches from Greece and other sources. In 1981, the U.S. share of Canadian peach imports was 67 percent. Today, the U.S. share is only 13 percent, notwithstanding the fact that total Canadian imports have remained constant. Access to this market is further restricted by Canada's import duties and restrictions on consumer size cans.

Under the Free Trade Agreement (FTA), the U.S. cling peach industry has requested that the Canadian duties on canned and frozen peaches and fruit cocktail (11.7 percent for canned peaches, 11.2 percent for frozen peaches and 9 percent for

fruit cocktail) be eliminated as of January 1, 1990 instead of under a ten-year phase-out period. Although the identified cling peach products have been designated for negotiation, it is believed resistance from Canada's small cling peach industry may prevent expedited tariff elimination this year, opening the door for further inroads of low-priced Greek exports.

In addition, the U.S. industry is seeking elimination of Canada's prohibition on imports of the 303 can size (16 ounces). Canada is the only known country to forbid imports of the 16 ounce consumer size can, which is a standard can size world-wide. U.S. cling peach processors who regularly pack only the 303 can size for consumer consumption, incur added expense in changing their processing lines to accommodate the 300 size (14 oz.) required in Canada. The working group established under the FTA framework to resolve the can-size restrictions has yet to achieve any meaningful steps towards liberalization in this area.

C. Korea

Of foremost concern in Korea is the country's ban on general access for cling peaches and frozen peaches. The importation of these products is allowed only for tourist hotel and restaurant trade. In April, the Korean government announced that it would lift the ban on canned peaches in 1991 as part of a larger liberalization package designed to avoid Super 301 designation. Despite Korea's commitment, it is still too early to know whether the proposal for 1991 elimination will be honored. This is particularly true in light of Korea's current import policy on agricultural goods, which is aimed at suppressing access and consumer demand for agricultural imports. Canned fruit is specifically mentioned as an item for which imports should be strictly controlled.

The bans on canned and frozen peaches are GATT-illegal and should be eliminated pre-1991. If they are not, the United States should invoke its authority under Super 301 to protect U.S. access rights on these items. Once access is achieved, the United States must ensure that entry is not subsequently disinvoked through non-tariff measures designed to suppress access and demand.

Efforts are also needed to liberalize Korea's exorbitantly high duties of 50 percent ad valorem on all cling peach products.

D. Taiwan

High duty rates are of concern in Taiwan. They are assessed at 35 percent ad valorem for canned peaches and fruit cocktail, 35 percent ad valorem for frozen peaches without sugar, 45 percent ad valorem for frozen peaches with sugar, and 45 percent on peach juice concentrate. The current rates are unjustifiably high, particularly given that cling peaches are not produced in Taiwan.

Additional impediments to trade are Taiwan's method of customs valuation, which allows the shipper to declare values for purposes of assessing the duty, and its Chinese labeling requirements on packaged imports subject to inspection.

E. Mexico

Despite Mexico's recent accession to the GATT and promises to lower tariffs or ease licensing requirements, significant trade barriers still exist for the U.S. peach industry.

Licenses are still required for canned fruit and issued only on an erratic basis. In addition, on August 23, 1989, Mexico issued a new regulation requiring import licenses for fresh peaches, nectarines and apples from August 23, 1989 through the end of October this year and for 1990 from July 1 through the end of October. Licenses have yet to be granted under this new regulation, which was implemented to protect domestic suppliers. The regulation affects U.S. cling peach producers who ship clings to Mexico for processing.

Tariffs remain a problem as well. Imports of canned peaches, fruit mixtures and frozen peaches are all assessed a 20 percent duty.

F. Saudi Arabia

Restrictive shelf-life requirements imposed by the Saudi Arabian government on canned peaches and fruit cocktail are of concern to U.S. cling exporters, who have targeted the Middle East as a high-potential growth market for their product and are putting several hundred thousand dollars of industry and FAS export promotion funds towards developing that market. Under the new requirements, the permissible shelf-life for canned fruit dropped from a previous range of 17 to 36 months to 18 months. This means that products with less than nine months remaining at time of arrival are refused entry by the Saudi government. The time constraints are particularly onerous considering the time incurred in shipping the product and the additional delays incurred on arrival in Saudi Arabia due to new "legalization" re-

quirements implemented on March 14 of last year that call for a radiation-free certificate for all goods entering Saudi ports.

U.S. officials report that Saudi officials are prepared to accept longer shelf-life dates, but only after they have developed and put into place a Standards Code for the transportation, storage and handling of food products.

G. Japan

Of principal concern in Japan is the country's prohibition on the use of sodium benzoate as a preservative. In order to ship fruit cocktail to Japan, U.S. canners who use sodium benzoate to preserve the red cherries must special pack cherries for their Japanese shipments that do not use the prohibited preservative. Along with international acceptance, the U.S. Food and Drug Administration has approved the use of sodium benzoate as a food additive. The United States should insist that Japan's limitation be eliminated.

Current duty levels on canned fruit also slow shipments to Japan. Cling peaches over two kilos are assessed at 12 percent ad valorem, shelf-size cling peaches are assessed at 14.4 percent ad valorem, and all sizes of fruit cocktail and mixed fruit are assessed at 11.2 percent ad valorem. Under the terms of the recent Citrus Agreement, the Japanese tariff on frozen peaches was reduced from 20 percent to 10 percent, effective April 1, 1989. An elimination of these tariffs would help reverse declining U.S. canned fruit shipments to Japan and help preserve the industry's number one foreign market.

In addition to the practices named above, U.S. cling peach exports face excessive trade barriers, including high tariffs, licensing restrictions and import bans in Malaysia, Indonesia, Thailand, India, Egypt and Scandinavia.

III. CONCLUSION

Increases in world production of peaches and unfair and illegal trading practices of competing export countries are causing California cling peaches to be displaced in domestic and historically important foreign markets.

The need for comprehensive global reform is critical and may be the only means of ensuring long-term industry health. The California cling peach industry supports the United States' efforts in the Uruguay Round to achieve comprehensive, global reform on all trade-distortive practices affecting agriculture on a uniform time frame. In the event this cannot be achieved, the industry supports the strengthening of bilateral measures, such as Section 301, to force our trading partners and competitors to negotiate reform.

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ADDRESSING UNFAIR TRADE: AGRICULTURAL CASES UNDER SECTION 301 OF THE TRADE ACT OF 1974

INTRODUCTION

Congress authorized procedures in 1974 by which U.S. exporters could receive Federal assistance in seeking remedies to problems caused by unfair foreign trade practices. The procedures are commonly referred to as "Section 301." Section 301 (actually sections 301 through 310 of the Trade Act of 1974, as amended) empowers the Administration to enforce U.S. rights under trade agreements and to respond to certain unfair trade practices. Trade agreement rights include rights under the General Agreement on Tariffs and Trade (GATT) as well as rights under other international agreements. An alleged unfair foreign trade practice includes any violation of terms of a trade agreement as well as an act, policy, or practice of a foreign government that is unreasonable or discriminatory, and causes a burden on U.S. products or trade related services.[1]

The unique feature of Section 301 is the action that the Administration (through the Office of the U.S. Trade Representative (USTR)) can take against foreign trade practices. USTR can deny trade agreement concessions (e.g. concessionary tariff rates), impose import restrictions, agree to a compensation package, or sign an agreement with the offending country that it will change its policy. If the foreign trade barrier violates any international trade agreement, USTR is required to act (unless action is waived); if the foreign barrier is unreasonable or discriminatory, USTR retains discretionary authority on whether or how to take action.

Before the 1974 trade act, U.S. businesses relied on any international trade agreement's dispute settlement procedures (most often the GATT procedures) to settle disputes. After 1974, particularly as world trade in agricultural products grew, U.S. agribusinesses began filing a number of Section 301 petitions against what they considered foreign unfair trade practices. However, the petition process did not bring about the hoped for changes in these practices. Congress over time has amended the original provisions. The most recent amendments, in the Omnibus Trade and

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[1]U.S. Library of Congress. Congressional Research Service. Foreign Trade Barriers and Section 301, by Lenore Sek. Issue Brief 89113. Updated regularly.

Competitiveness Act of 1988, made mandatory some retaliatory actions if certain foreign practices continued.[2]

This report reviews the law's definition of an unfair trading practice, and the procedures of Section 301 as a trade remedy for agricultural products. It discusses some general characteristics of the Section 301 petitions concerning agricultural products that have been investigated. It then reports on how persons involved in this process view its effectiveness for agricultural trade.

BACKGROUND

Under Section 301 of the Trade Act of 1974, as amended, Congress gave the President and the Executive Branch enhanced authority to respond to what the United States considered unfair foreign trading practices.[3] Often these practices took the form of non-tariff barriers, which many U.S. exporters consider to be unfair trading practices.

Successive rounds of multilateral trade negotiations had lowered border tariffs to ease trade flows. Soon, however, to protect their domestic industries, including their agricultural sectors, countries erected non-tariff barriers. Non-tariff barriers on agricultural products are often more difficult and time consuming to notice, to quantify, and to negotiate than tariff barriers. These barriers often protect domestic agricultural industries from competing imports, and, if these barriers are longstanding, they develop political support within governments and among interest groups.

To assist these exporters in trying to change foreign government practices considered unfair, Congress defined in Section 301 an unfair trading practice. Originally in 1974, an unfair trading practice was an act, policy, or practice that was unjustifiable and unreasonable, that burdened the value of U.S.

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[2]For a complete legislative history of the debate over mandatory/ discretionary actions, see Bello, Judith Hippler and Alan F. Holmer. The Heart of the 1988 Trade Act: A Legislative History of the Amendments to Section 301. Stanford Journal of International Law. Vol. 25, Fall 1988. pp. 1-44.

[3]The predecessor statute, section 252 of the Trade Expansion Act of 1962 (P.L.87-794, approved October 11, 1962) was repealed and Section 301 took its place in the Trade Act of 1974 (P.L. 93-618, approved January 3, 1975, 19 U.S.C. 2411). The law has been substantially amended by Title IX of the Trade Agreements Act of 1979 (P.L. 96-39, approved July 26, 1979), by the Trade and Tariff Act of 1984 (P.L. 98-573, approved October 30, 1984) and by the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418, approved August 23, 1988). Also see CRS Report entitled, Section 301 of the Trade Act of 1974: Agricultural Commodity Cases, by A. Ellen Terpstra. Archived CRS Report. March 1982.

trade, that limited access, that engaged in discriminatory acts, or that provided subsidies which had the effect of reducing U.S. sales.

Since then, Congress has expanded the definition to allow the USTR to determine whether an action or policy violated terms of a trade agreement or denied benefits under an agreement. In fact, a trading practice can be defined as unfair even if it doesn't violate a trade agreement but is considered otherwise unfair and inequitable or has that effect. A practice is also defined as unfair if it restricts access of U.S. products to markets, uses export targeting,[4] or shows persistent denial of worker rights or tolerates systematic private anti-competitive activity.[5] Foreign countries fear U.S. retaliation if USTR finds unfair trade practices based on one or more of these criteria. This fear places U.S. negotiators in a position to press for changes in foreign trading practices.

In effect, Section 301 provides a domestic legal mechanism whereby the United States can act unilaterally against foreign trade practices such as export subsidies or quantitative import restrictions. It does not require USTR to go through the GATT or any agreement dispute settlement process, however, when responding to foreign unfair trade practices that are unreasonable, discriminatory and a burden to U.S. commerce. Plus it applies to practices and policies of countries whether or not they are covered by, or are members (signatories) of the General Agreement on Tariffs and Trade (GATT).[6] However, in forming Section 301 procedures, the lawmakers had in mind mainly the GATT and/or one of the GATT codes concluded in 1979.

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[4]Section 304 of the Trade Act of 1974, as amended. 19 U.S.C. 2414. Export targeting is defined to mean "any government plan or scheme consisting of a combination of coordinated actions (whether carried out severally or jointly) that are bestowed on a specific enterprise, industry, or group thereof, the effect of which is to assist the enterprise to become more competitive in the export of a class or kind of merchandise."

[5]Section 301 (d)(3)(B) of the Trade Act of 1974, as amended, defines unreasonable practices to include: any act, policy, or practice, which denies fair and equitable--

(I) opportunities for the establishment of an enterprise;

(II) provision of adequate and effective protection of intellectual property rights; or

(III) market opportunities, including the toleration by a foreign government of systematic anti-competitive activities by private firms or among private firms in a foreign country that have the effect of restricting, on the basis inconsistent with commercial considerations, access of U.S. goods to purchasing by such firms.

[6]Public Law 100-418, Sections 1301-1302; 102 Stat. 1164-1179.

A REVIEW OF SECTION 301 PROCEDURES

The law clearly defines the procedures used to challenge unfair trade practices.[7] The procedures apply to all U.S. commerce and not just to trade of agricultural products. See Figure 1 on page 5 for highlights of Section 301 scheduled determination deadlines.

Initiation Process

Action under Section 301 can be initiated two ways: (1) by a petition filed with USTR by an interested party (an individual, group, or organization); or (2) by USTR's own motion. The petition states the reason for the complaint and gives the reasons why a foreign unfair or discriminatory trade practice has had an adverse effect on U.S. business. The law means that a "foreign government practice" is any federal, state (intermediate) or local government action. In ail cases, USTR must decide within 45 days of a petition's filing whether to initiate an investigation.

If USTR accepts the petition and begins (initiates) an investigation within a reasonable time, USTR publishes a summary of the petition in the Federal Register. USTR then provides a period for public comment including, if requested, a public hearing for parties interested in expressing views on the petition within 30 days (or at some other mutually agreed time). If USTR rejects the petition, it immediately publishes its reasons in the Federal Register. USTR also explains to Congress why it rejected the petition and what economic interests could be adversely affected by the investigation.

USTR has discretion in rejecting petitions. It has done so: for long-term policy reasons, on legal grounds, for deficiency of necessary information, for fear of retaliation by the foreign country, or because the United States is unlikely to prevail in a dispute settlement case in the GATT.

Before formalizing a petition, interested parties are encouraged to submit a draft petition for comments to USTR and to members of the Interagency Section 301 Committee who will rule on the petition.[8] This procedure forewarns USTR of developments that would require an allocation of USTR

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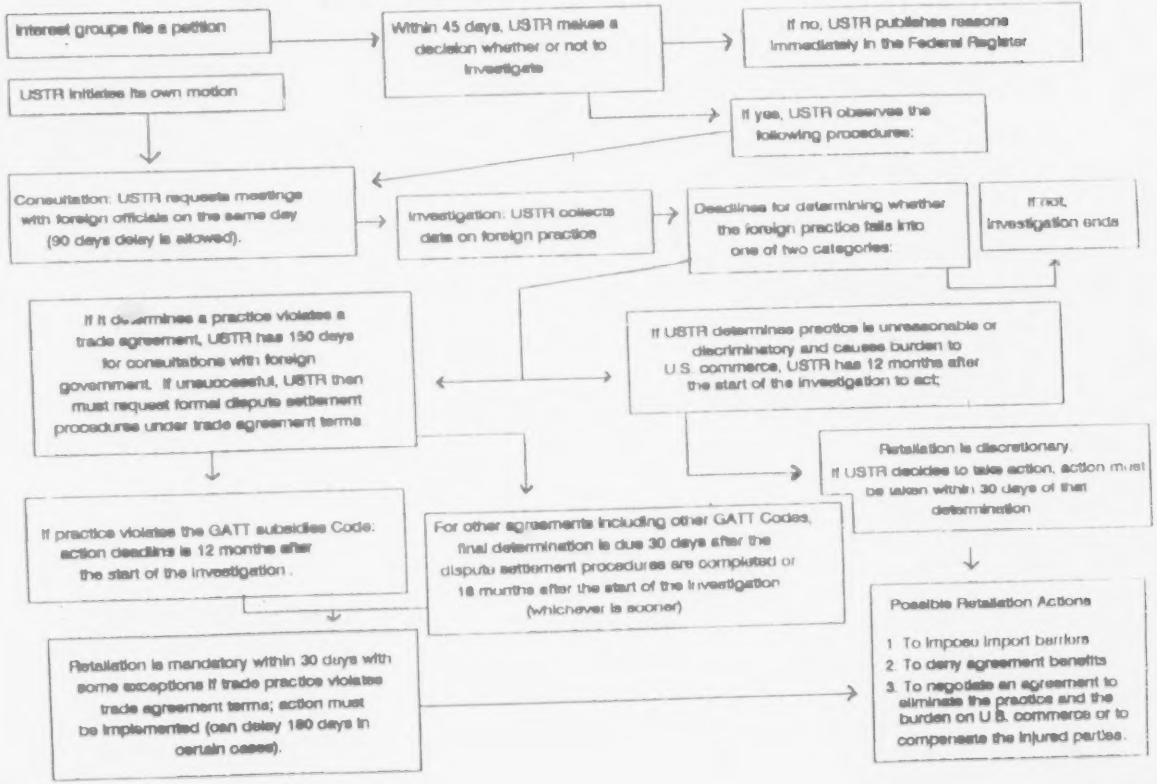
[7]Many details on Section 301 procedures are in Bello, Judith Hippler and Alan F. Holmer. The Heart of the 1988 Trade Act: A Legislative History of the Amendments to Section 301. Stanford Journal of International Law. Vol. 25, Fall 1988. p. 1-44.

[8]This interagency standing Section 301 Committee is chaired by USTR and is composed of representatives of the Departments of State, Treasury, Commerce, Justice, Agriculture, Labor, the Office of Management and Budget, and the Council of Economic Advisors.

Figure 1. HIGHLIGHTS OF SECTION 301 SCHEDULED DETERMINATION DEADLINES


Interest groups file a petition
USTR initiates its own motion
Within 45 days, USTR makes a decision whether or not to investigate
If no, USTR publishes reasons immediately in the Federal Register
If yes, USTR observes the following procedures:
Consultation: USTR requests meetings with foreign officials on the same day (90 days delay is allowed).
Investigation: USTR collects data on foreign practice
Deadlines for determining whether the foreign practice falls into one of two categories:
If not, investigation ends
If it determines a practice violates a trade agreement, USTR has 150 days for consultations with foreign government. If unsuccessful, USTR then must request formal dispute settlement procedures under trade agreement terms
If USTR determines practice is unreasonable or discriminatory and causes burden to U.S. commerce, USTR has 12 months after the start of the investigation to act;
Retaliation is discretionary. If USTR decides to take action, action must be taken within 30 days of that determination
If practice violates the GATT subsidies Code, action deadline is 12 months after the start of the investigation.
For other agreements including other GATT Codes, final determination is due 30 days after the dispute settlement procedures are completed or 18 months after the start of the investigation (whichever is sooner)
Retaliation is mandatory within 30 days with some exceptions if trade practice violates trade agreement terms; action must be implemented (can delay 180 days in certain cases).
Possible Retaliation Actions
1. To impose import barriers
2. To deny agreement benefits
3. To negotiate an agreement to eliminate the practice and the burden on U.S. commerce or to compensate the injured parties.

resources. The draft is then extensively reviewed by government officials who become acquainted with the petitioner's arguments. Because the petition at this point is still in draft form, officials appear more willing to comment on possible deficiencies, revisions, different arguments, and the likelihood of the United States prevailing in the dispute settlement process under the GATT. Such comments and advice are not official; USTR has no public record of these draft petitions. But such pre-filing consultations help avoid USTR's rejection of a petition for technical deficiencies that could have been corrected.

In addition, if potential petitioners need more information to develop an adequate Section 301 petition, USTR is to make available all nonconfidential information concerning the nature of the trade practice and all remedies available to the petitioning party. If, for some reason, USTR does not have such information, it must request the information from the foreign government concerned or advise the petitioner, in writing, of the reasons for declining to ask the foreign government. The petitioner also can find out through such a process what government efforts are already underway to resolve problems arising from the unfair trade practice. Certain business information that might jeopardize the businesses' commerce is treated confidentially.

A draft petition serves to bring a higher level of attention to the industry's complaint and serves to pressure negotiators to resolve the problem before negotiators lose flexibility when the formal Section 301 process begins.

Investigation Process

USTR's accepting a petition and starting an investigation does not necessarily mean that USTR will find or address the alleged unfair trade practice. Under Section 301, USTR investigates whether a trade practice violates any terms of a trade agreement (bilateral or multilateral) or is an act, policy, or practice that restricts U.S. commerce.[9]

However, there is a difference between denial of benefits under a trade agreement and a violation of a trade agreement itself. A country can act in accordance with its obligations under exceptions established in the agreement, but the result of the actions is a denial of the benefits that the agreement was supposed to bring. If a foreign country takes such actions (nullification or impairment of agreement rights), the United States must establish in a formal petition to the agreement dispute settlement body that it has lost the benefits of the agreement either through reduced exports to the country or into third country markets, before it takes retaliatory action.

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[9]Section 304 of the Trade Act of 1974, as amended. (19 U.S.C. 2414)

Consultations

USTR requests consultations with the foreign government on the same day that the investigation begins. If the investigation involves a trade agreement, consultations must be completed within a period provided by the agreement (if there is one), or 150 days from the initiation of the investigation, whichever is earlier. The period provides officials with an opportunity to handle the negotiations bilaterally. If, by this deadline, such consultations do not resolve the problem, USTR must request formal dispute settlement procedures as provided by any applicable agreement.

USTR can delay the request for consultations for up to 90 days to improve the quality of the petition. However, after the 90 days, the 150-day limit begins. If USTR does decide to delay the request for consultations, a notice of delay must be published in the Federal Register and the reasons for it must be reported to Congress in the regular semi-annual report on Section 301 activities.

Throughout the entire Section 301 investigative process, USTR consults with a variety of officials: (1) members on the Section 301 Committee from other Federal agencies, (2) private sector advisory representatives on the Advisory Committee for Trade Negotiations (created by Section 135 of the original law), (3) interested parties to the dispute, (4) representatives of "downstream" industries that use the product or service concerned, and (5) Members of Congress, particularly if there are any reasons for a delay in dispute settlement beyond the minimum period provided in any trade agreement.[10]

Determinations

Basically USTR is required to take action (subject to exceptions spelled out below) if the USTR finds that terms of a trade agreement were violated. Exceptions are made: (1) if the GATT panel disagrees with USTR, decides the practice is consistent with a trade agreement and doesn't affect U.S. rights; (2) if the foreign country ensures that the United States receives its rights; (3) if the foreign country eliminates or phases out the practice; (4) if the foreign country compensates with trade benefits to the United States; (5) in extraordinary cases, if the taking of action would have an adverse impact on the U.S. economy substantially out of proportion to the benefits of action, taking into account the impact of inaction on the credibility of the Section 301 program; or (6) causes serious harm to national defense.

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[10]Trade Act of 1974 Section 135 (19 U.S.C. 2155) is amended by P.L. 98-573, October 30, 1984, 98 Stat. 3011. The Advisory Committee for Trade Negotiations is a committee made up of representatives from the private and non-Federal governmental sector.

If USTR considers a foreign trade practice is unreasonable or unjustifiable, USTR has the discretion whether to take action; it is not required to do so. Even if USTR is not obligated to take action, Section 301 process appears to alert foreign governments to the U.S. concerns. Governments often prefer to cooperate in multilateral negotiations or to open their markets to imports rather than have a 301 action brought against them.[11]

Deadlines for determinations depend on the type of trade practice investigated. In investigations involving a trade agreement (except the GATT Subsidies Code) the deadline for a decision is the earlier of either 30 days after the end of the agreement dispute settlement procedures, or 18 months after the initiation of the investigation, whichever is shorter. In all other cases, the limit is 12 months after the initiation of investigations.

Retaliatory Actions

Section 301 language leaves USTR with some discretion as to the type of protective or retaliatory actions to be taken, if needed. However, USTR is required by statute to give preference to using tariffs in retaliation for unfair practices over other import restrictions. Authorized actions include the suspension or withdrawal of benefits agreed to in a trade agreement, and/or the imposition of duties and other import restrictions, or the negotiation of another agreement.[12] It is a common practice to impose penalties on the offending country's major exports. For example, the United States increased tariffs on pasta to protest EC's trade practices hindering U.S. citrus export trade. (For a thorough discussion of the use of different products for retaliation, see CRS Rept. No. 87-911 ENR, The "Citrus-Pasta Dispute" between the United States and the European Community, by Donna U. Vogt.)

Implementation

USTR must take the retaliatory action, if any, within 30 days after the determination is made (subject to the specific direction, if any, of the President regarding any action.) USTR can delay action by 180 days or less if: (1) the petitioning party requests a delay; (2) the majority of the representatives of the domestic industry that would benefit from the action requests a delay; or (3) USTR determines progress is being made or that the issues involved are complex and complicated and the investigation requires additional time.

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[11]Ambassador Alan F. Holmer, and Judith Hippler Bello. The 1988 Trade Bill: Is it Protectionist? Unpublished paper of the Office of the Trade Representative. Fall 1988. p. 8.

[12]Telephone conversation with Harold Jackson, President of Sunsweet Commodities. (415) 463-7536.

If USTR finds export targeting under the investigation but does not retaliate, the law requires USTR to form an advisory panel to recommend measures promoting the competitiveness of the domestic industry affected by that targeting.[13] The panel has 6 months to write a report. On the basis of the advisory panel's report, the USTR (subject to the specific direction of the President, if any) may take any administrative action authorized by law and, if necessary, propose legislation to implement any other actions. Within 30 days of the panel's report, USTR must submit to Congress a report on such administrative actions taken and legislative proposals made.

Once there is a decision, the reasons must be published in the Federal Register.

Monitoring of Foreign Compliance and Termination of Actions

The President is required to monitor and to modify or terminate any retaliatory actions taken, if necessary. The retaliation automatically ends after four years unless the industry affected petitions for an extension. If, after being notified beforehand, the petitioner or affected industry requests a continuation of the action within the action's last 60 days, USTR has the discretion to continue or end the action.

The GATT Connection

Section 301 creates a unique relationship between U.S. law and the GATT, or any other international agreement dispute settlement process. Primarily, it allows private parties access to an international mechanism for settling disputes.[14]

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[13]Export targeting here means that a foreign government's policies, acts, or practices protect home markets; promote or tolerate cartels, place special restrictions on technology transfer to gain commercial advantage, practice discriminatory government procurement policies, use export performance requirements that limit foreign competition, and subsidize in a way that gains them more than an equitable share of the market. U.S. Congress. House of Representatives. 2nd Session. Omnibus Trade and Competitiveness Act of 1988. Conference Report to accompany H.R. 3. Report 100-576. April 20, 1988. p. 567.

[14]U.S. General Accounting Office. Statement for the Record by Allen I. Mendelowitz, Senior Associate Director, National Security and International Affairs Division, for the Senate Committee on Finance, July 22, 1986 in hearings on Section 301 of the Trade Act of 1974, as amended. Presidential Authority to Respond to Unfair Trade Practices. Hearing before the Committee on Finance, U.S. Senate, 99th Congress, 2nd Sess., July 22, 1986, Title II of S. 1860 and S. 1862. S. Hrg. 99-1001. p. 189-197.

The law applies most frequently to practices violating the GATT. Under the GATT dispute settlement procedure, the GATT Council establishes a panel and its terms of reference.[15] The GATT panel examines the facts and arguments from the contending parties and recommends a course of action to the GATT Council.[16] The Council if it rules on the recommendations, only does so by consensus. However, the process often is drawn out. In fact, a General Accounting Office study found that the GATT dispute settlement procedures for most complaints averaged about 45 months, just short of 4 years.[17]

Early petitions, particularly those challenging domestic EC agricultural policies, took between 2 to 12 years to resolve. Because of the inordinately slow process, Congress insisted on putting time limits around the 301 process.

Uruguay Round negotiators of the GATT Negotiating Group on Dispute Settlement also recently recommended time limits on the dispute settlement process. The proposed recommendations suggest an overall timetable that would require panels to report within 15 months to the GATT Council of

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[15]Article XXIII:1 of the GATT says that trading partners should consult with each other over the trade problem and these consultations should be carried out in a timely manner. If consultations do not resolve the problem, Article XXIII:2 states that a panel should be formed. It is the usual practice that the panel consist of three to five members, normally drawn from experts from countries not involved in the dispute. These panel members are expected to act as disinterested mediators and not as representatives of their governments. See also Section 303(2), 19 U.S.C. 2413, 102 Stat. 1170.

[16]The panel examines the facts and arguments from the two parties, normally including at least two rounds of written briefs and two rounds of oral arguments. The panel then writes a report. The report contains the panel's conclusions and suggested remedies that the members may choose to adopt as recommendations to the disputing parties. Bilateral settlement among parties to a dispute is possible at every phase of the process, up until the final adoption of the panel report by the member ruling Council. The panel circulates the report initially to only the two disputing parties for comment. Thereafter, the panel transmits the final report to the GATT Council for acceptance. The Council votes on the report only if both parties accept the report's conclusions; one party can prevent the report's presentation to the Council for a vote. The Council acts by consensus, not by majority vote, and therefore will not formally accept a panel report unless all members agree to either abstain or vote for the report's acceptance.

[17]General Accounting Office. International Trade: Combatting Unfair Foreign Trade Practices. GAO/NSIAD-87-100. March 1987. p. 18.

Ministers with findings on the petition.[18] Dispute settlement panels are composed of representatives from 3 GATT-member countries disinterested in the dispute. The panel's general task (called terms of reference) is to find information about the practice and the problems it caused. In recent years, contending members have used disputes over terms of reference as a delaying tactic.

"Super 301" Provision

"Super 301" is a provision of the Omnibus Trade and Competitiveness Act of 1988 (Section 310) that amended Section 301 of the Trade Act of 1974. It called upon the Administration to act aggressively in naming foreign countries and practices that injured the flow of U.S. commerce. See pages 20-23 below for a discussion of recent actions taken under its authority.

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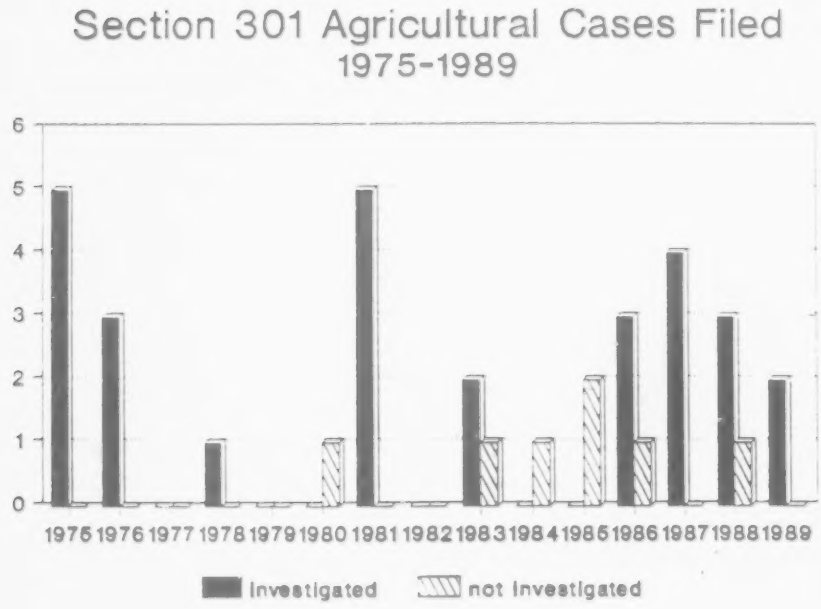
[18]The April 1989 "framework agreement" section on agriculture included in its work program the goal of "strengthened and more operationally effective rules and disciplines..." General Agreement on Tariffs and Trade. Chairman's text. p. 8. Also see Edward C. Wilson, GATT Mid-Term Review. World Agriculture: Situation and Outlook Report. U.S. Department of Agriculture. Economic Research Service. March 1989. pp. 10-12.

AGRIBUSINESS CASES UNDER SECTION 301

Appendices A and B (pages 24-37) show all recorded petitions involving agricultural products that have been filed with USTR since 1975. Appendix A covers petitions accepted by USTR. Appendix B lists petitions concerning agricultural products that were filed but not accepted for investigation.

Each of the petitions described in the appendices is assigned an official number when the case is accepted for investigation. Of the 78 petitions accepted by USTR since the 1974 trade act became law, 30 petitions or approximately 39 percent involved agricultural products. Of these 30, two formal petitions, involving soybean oil and meal subsidies, were pursued by USTR in conjunction with a previously filed and accepted petition. This paper, therefore, reports on 28 petitions involving agricultural exports. USTR did not investigate (rejected) 24 petitions, of which 7 involved agricultural products. Appendix B lists these seven. Figure 2 graphs the years when petitions were filed. No more than 5 petitions were filed in any one year.

Figure 2*



Source: Appendices A and B, pages 24-37.

* Disposition of agricultural petitions, whether accepted or rejected for investigation.

Of the 30 cases described in Appendix A, 17 petitions or 57 percent of the agricultural cases alleged harm caused by trading practices of the European Community (EC) or countries within the EC. Other countries mentioned in at least one petition by itself or in combination with other countries were: Argentina (3), Korea (2), Taiwan (2), Brazil (2), Canada (2) Japan (1), Malaysia (1), India (1), Spain (1) and Portugal (1).

The products mentioned varied considerably. Canned fruit was mentioned three times while citrus products were specified in two petitions. Oilseeds and products were specified in four petitions; meats were also specified in four petitions. Eggs were specified in two petitions, wine, beer, and/or tobacco in two petitions. Other products mentioned at least once were: rice, wheat flour, wheat, livestock feed, sugar, malt, hides, almonds, poultry and pasta.

Of the 30 cases involving agricultural products, 17 either are still pending or were brought to the GATT for dispute settlement, while 13 are pending or were resolved through bilateral consultations outside the formal GATT procedures. Bilateral consultations and negotiations outside of the GATT appear to speed up the process. For example, four of the five cases initiated so far by the President were resolved bilaterally without recourse to the GATT procedures.

Also, earlier cases took longer to resolve, while more recent petitions and investigations have moved more expeditiously. Cases filed in the 1970s and early 1980s took from 4 to 12 years to resolve. However, more recent cases have been resolved much more rapidly, taking between 1 to 2 years.

Part of the reason for the lengthy negotiation period was because earlier petitions sought redress against trading practices forbidden under GATT rules such as predatory export subsidies and trade practices in third country markets. One petition now symbolizes the problems with using the GATT dispute settlement procedures to change national trading policies. A petition by the Millers National Federation (see Investigation No. 301-6) claimed that the EC export subsidy on wheat flour was a subsidy on a processed product. Processed product subsidies were forbidden under the GATT Tokyo Round Code on Subsidies and Countervailing Duties if used to gain unfair competitive advantages in third country markets.[19] The Millers Federation claimed that the EC export subsidy on wheat flour gave the EC just such an advantage. The EC argued that wheat flour was a primary product and therefore its exportation could be subsidized under GATT Code rules. The EC further contended that even if wheat flour is processed, only the primary product component is subsidized, and the EC had not used subsidies to gain more than an equitable share of the market. A panel report found that the EC's share of world wheat flour exports had increased while U.S. and other

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[19]The GATT Tokyo Round of multilateral trade negotiations ran from 1974 to 1979, and focused on the reduction of tariffs and non-tariff barriers as well as forming rules for trading in codes.

suppliers' shares decreased. The panel did not rule, however, on whether the EC's use of export subsidies was legal under GATT rules.

The wheat flour case showed many GATT member countries that it was difficult to change an internal domestic policy (as the EC calls its export subsidies) in the GATT dispute settlement arena. The length of time (the issue will be subject to negotiation in the Uruguay Round), the costly administration effort, and the frustration of the U.S. wheat millers demonstrated that petitioning against agreement violations through Section 301 procedures was not very successful in bringing about any fundamental change in the EC policy, nor did the 301 process restore what the U.S. group considered its market share.

More recent cases petitioned against hindrances to market access either because of quotas, bans, or licensing arrangements. These Section 301 cases have been resolved sooner than earlier cases. A petition against Korean wine restrictions, for example, was successful in negotiating in less than one year greater market access for U.S. products.[20] Consultations and negotiations were held on a bilateral basis with the entire process lasting 10 months.

Appendix B, gleaned from the public files at USTR, lists 7 petitions involving agricultural products that were officially filed but not accepted by USTR. This appendix also includes the determination of whether the petition was withdrawn or why USTR dismissed the complaint.

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[20]In a January 1989 U.S.-Korean exchange of letters, ending the Section 301 investigation (301-67), Korean officials agreed to increase wine and wine product quotas substantially in 1989 and eliminate them in 1990. Sparkling wine and brandy import restrictions will be lifted in 1991. The agreement also provides for reduced tariffs on wine and wine products, a reduced liquor tax on wine coolers and wholly owned foreign investment in importation and distribution of foreign wine and wine products. Office of the U.S. Trade Representative. 1989 National Trade Estimate Report on Foreign Trade Barriers. p. 117.

ASSESSMENT OF SECTION 301 AGRIBUSINESSES COMPLAINTS

How successful has the Section 301 process been in removing unfair trade practices for U.S. agricultural exports? Have the various amendments to the original Section 301 strengthened the negotiating hand for groups interested in regaining market share and acquiring market access for agricultural commodities?

"Relatively successful" appears to be the general assessment of the Section 301 process from many who have worked on 301 cases.[21] Success appears to depend on what the industry wanted when it filed a petition or an investigation began. For the most part, Section 301 agriculture petitions have pressured foreign governments into addressing some of the agricultural groups' concerns. The "successful" comment stems not from small starting exporters, but from groups that have already been exporting and have encountered problems that they see as substantial stumbling blocks to their trade flows. In the 14 years of the 301 process, 30 petitions from agricultural groups have been investigated; these are principally from major commodity groups. The opinion of many spokespeople for the petitioners is that the law should be amended to increase the number of foreign unfair policies against which retaliation was required. Petitioning groups consider such strengthening as important Administration leverage to correct unfair trading practices.

Support for Section 301 Use

High Visibility. Supporters of the Section 301 process are quick to point out that filing a Section 301 petition is one major way that U.S. private businesses can get the U.S. Government involved in protesting another country's policies. With a 301 petition, the private interest group draws U.S. and world attention to an unfair trading practice and the economic impact of the practice on U.S. commerce. Because the practice is under the "spotlight," U.S. companies also can look at their own industry and marketing techniques to insure they also are compatible with world trading rules. The Rice Millers Association filed two different Section 301 petitions (1986 and 1988) against Japan's ban on imports of rice. Although these two petitions were rejected

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[21]The information in this section came from telephone conversations with a number of people in private business who represent U.S. agricultural interests and have worked with Section 301 petitions: John Baize, American Soybean Association; Paul Green, Millers National Federation; Leonard Lobred, National Food Processors Association; Jerry Welcome, Mike Copps, American Meat Institute; Steve Gabbert, Gabbert Associates; Robert G. Hibbert, Heron, Burchette, Ruckert, and Rothwell; Paul C. Rosenthal, Collier, Shannon, Rill, and Scott; Larry Kleingartner, National Sunflower Association; Bob Schramm, Schramm and Associates; Sheldon Hauk, National Soybean Processors Association. Others were contacted July 1988 for similar information: Don Farmer, Florida Citrus Commission; Mr. Bill Quarrels, California-Arizona Citrus League; Jean Marie Peltier, California Pear Growers Association; Tom Krugman, California Cling Peach Advisory Board.

by the USTR, the filing process and the publicity given to this trade barrier has stayed in public view, and is often cited as an example of Japan's protectionist policies.[22]

Leverage in Bilateral Negotiations. Also, the threat of loss of U.S. markets or of other retaliatory acts can be a significant incentive to foreign countries to reconsider questionable trade policies. In fact, some countries have become more flexible in negotiations when faced with a Section 301 petition. The EC became much more flexible in its negotiations over its barrier to U.S. meat exports, the so-called Third Country Meat Directive after a Section 301 petition was filed.[23] (See Appendix A, Docket No. 301-60.) This directive established new and costly requirements on methods of slaughtering and meat processing in non-EC countries, including the United States. Although the directive is still in effect, the EC became much more amenable to certifying U.S. slaughterhouses after the petition was filed.

Leverage in Multilateral Negotiations. USTR claims that these bilateral negotiations conducted under the auspices of Section 301 can have a positive impact on the multilateral trading system.[24] For example, the 1988 settlement with Japan on beef and citrus quotas, brought in part by the Section 301 petition of the U.S. citrus industry, has opened the market for beef and citrus imports from the United States as well as from Australia and New Zealand. So in this manner, Section 301 is furthering the Administration's goals of expanding access to all markets and ensuring "fair play" around the world in agricultural trade.

Problems with Section 301

Cost and lack of effectiveness appear to be the primary reasons why more interested U.S. agribusiness groups do not use the Section 301 process.

Cost. Section 301 petitions can be costly. Petitioning industries incur costs in both time and money without the assurance that trade practices will be remedied or market access eased. The cost to petitioners of Section 301 cases varies depending on the expertise within the petitioning organization, the type of industry that is claiming injury, and the amount of revenue lost in the period covering the dispute. In addition, the industry would not have complained about the practice unless it was losing money. Therefore, as the

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[22]Telephone conversation with Steve Gabbert, Gabbert Associates, 5/23/89. (202) 452-1846

[23]Telephone conversation with Robert G. Hibbert, Heron, Burchette, Ruckert, and Rothwell, attorneys at law. 5/22/89. (202) 898-6425.

[24]Holmer, Alan F. and Judith Hippler Bello. The 1988 Trade Bill: Is it Protectionist? Unpublished paper distributed by Office of the U.S. Trade Representative. Fall 1988.

Section 301 process drags on, producers face the additional loss of income while in the petitioning process.

In fact, the cost of Section 301 petitions can depend on whether the Administration's trade objectives coincide with the objectives of the petitioners. For example, if an industry applies for relief from another country's unfair trade practices in a Section 301 petition, and the Administration supports the objective of the petition, or if the Administration initiates relief action itself, government officials would assist in the preparation and negotiations. Overhead costs to the petitioning industry might be smaller, and the relief could be relatively rapid. Costs can also be held down if petitioners combine forces and split up the costs. Case number 301-60 was filed by a coalition of U.S. interest groups protesting the EC's Third Country Meat Directive (see Appendix A, investigation no. 301-60), which kept costs to the individual groups down.

If, on the other hand, an industry initiated relief action under Section 301 without the support of the Administration, the overhead cost and the time spent could be quite large. And the domestic industry may not be organized in a way that permits it to act in a unified manner and together fund the necessary research and filing of the petition. For example, although pecans could perhaps gain a sizable market share in the European Community, where nontariff barriers have caused difficulties in market access for pecans, U.S. pecan producers (approximately 12,000) cannot coordinate the fundraising to pay for a petition. Apparently, the cost of forming the necessary organization and raising the needed funds to file a petition is greater than the benefit to these pecan producers at this time.[25]

In an informal survey of spokespeople for 11 petitioners, five petitioners claimed their cost range was between $1,000 and $25,000 per petition. Two claimed their costs ranged between $35,000 and $50,000; one said its cost was between $100,000 and $200,000; and three claimed costs from between $600,000 and $1.5 million.[26]

Effectiveness. Several spokespeople interviewed questioned the effectiveness of the Section 301 process. Their major complaint was that the process takes a long time and the alleged unfair practices and related trade injury continue during the delay. Supporting this comment is evidence collected by the General Accounting Office that estimated the average time for

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[25]Telephone conversation with Bob Schramm, Schramm and Associates, 5/19/89. (202) 543-4455

[26]Cost information came from a variety of telephone conversations with persons listed in footnote 21.

completing 301 cases is 34 months (just short of 3 years).[27] In one case, USTR rejected a petition for lack of complete data. The petitioner could not find 10 years of data easily, and did not spend the money or time to collect it.[28]

Some U.S. industries recovered their lost markets (examples include eggs and malt) after going through the Section 301 process. However, others qualified their satisfaction over the outcome with comments about problems with the process. Even if a petition is successful, through a GATT panel or through retaliatory action, the U.S. industry may not gain the market access it hoped or the satisfaction of seeing a trade practice changed. The country may just shift to alternative barriers. A GATT panel investigating EC subsidies on EC member states' products including canned peaches, fruit cocktail, and raisins, confirmed that EC subsidies nullified the benefits of tariff concessions negotiated in previous GATT rounds.[29]

The United States has only used retaliatory actions in five cases (Appendix A, Docket Nos. 301-11, 301-24, 301-25, 301-54, 301-62). At times, the actions taken either gave an advantage or disadvantage to the petitioners in the original complaint or to another product rather than to the originating interest of the petitioner. In one petition (Docket No. 301-11), the Florida Citrus Commission along with other citrus interest groups, filed the original petition. During the 301 process, the EC imposed higher tariffs on lemons and walnuts. Later, when the United States reached an agreement for EC tariff concessions on citrus, the EC lowered tariffs on almonds and peanuts.

The petitioning firm also may incur the foreign government's hostility by filing a Section 301 petition, and the government may refuse to change the injuring practice or may even retaliate. The "citrus-pasta" war and the EC growth hormones ban on meat products are two examples of the exchanges that have led to an escalation of tensions. (See Appendix A, investigation docket numbers 301-11, 301-25, and 301-62.)

Some analysts have suggested that it may be more effective in gaining market shares to use direct subsidies against unfair trading practices, such as

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[27]U.S. General Accounting Office. Statement for the Record by Allen I. Mendelowitz, Senior Associate Director, National Security and International Affairs Division, for the Senate Committee on Finance, July 22, 1986 hearings on Section 301 of the Trade Act of 1974, as amended. Presidential Authority to Respond to Unfair Trade Practices. Hearing before the Committee on Finance, U.S. Senate, 2nd Sess., 99th Congress, July 22, 1986, Title II of S. 1860 and S. 1862. S. Hrg. 99-1001. P. 189-197.

[28]Telephone conversation with Larry Kleingartner, National Sunflower Association, 5/18/89. (701) 224-3019

[29]Telephone conversation with Ms. Jean Marie Peltier, President of California Pear Growers, 6/27/88.

those under the Export Enhancement Program, rather than retaliatory actions. Direct subsidies draw the instant attention of foreign competitors. Competing exporters then pressure their governments to change policies, while the lengthy and risky procedures under Section 301 may not bring such direct results.

SUPER 301

The so-called "Super 301" provision of the 1988 trade act (Section 310) added a new requirement to the 301 process. Under the new statute, not only would USTR deal with trade barriers one at a time; in addition, under "Super 301," USTR must negotiate a whole list of trade barriers and identify U.S. trade liberalization priorities. One list would be prepared covering 1989 and another for 1990. It then was to be submitted to the Senate Finance and House Ways and Means Committees. The statute asked USTR in each list, to name those countries with the most restrictive and pervasive barriers to U.S. exports. Not only were countries to be named, but so were the "priority practices" of these countries.

USTR named six priority practices of Japan, Brazil and India to be the target of this year's Super 301 investigations. The list also gives information on action being taken to eliminate any pact, policy or practice identified.

Procedures

The "Super 301" list was based on an annual inventory of trade barriers entitled National Trade Estimate Report, published by USTR since 1974, that lists significant trade distorting practices of principal U.S. trading partners.[30] Where feasible, the report gives quantitative estimates of the impact of foreign practices upon the volume of U.S. exports. USTR released its most recent report at the end of April 1989.

Once identified, USTR initiates Section 301 investigations within 21 days with respect to all of those priority practices identified in the list for each of the priority foreign countries. USTR also has the discretion to initiate investigations of any other priority practice identified in the earlier report. "Super 301" investigations follow the usual procedure for Section 301 cases, meaning there is an investigation period during which USTR negotiates for the removal of barriers.

During the consultations with the "priority country governments," USTR is required to seek to reduce, to eliminate, or to receive compensation for, priority practices within 3 years of the start of the investigation. The negotiations are expected to bring an agreement to increase U.S. exports to that country incrementally each year over the 3 years. If such an agreement is negotiated before the date on which any action is required, the investigation will be suspended. But if the foreign country signs an agreement and then doesn't comply with its terms, USTR shall continue the investigation as though such an investigation had not been suspended.

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[30]Some countries were excluded from the USTR report primarily because of the relatively small size of their markets or the absence of major U.S. industry and agricultural trade complaints. Most centrally-planned or nonmarket economies also were excluded because the trade barriers in those countries are qualitatively different from those found in market economies.

A delay of 180 days is possible if suitable reasons are published. From then on, the "Super 301" investigation follows the same procedures as for any other Section 301 investigation. If USTR is not satisfied with the increase in exports, it can continue the investigation under standard Section 301 time limits. Beginning in 1990, USTR must submit annual progress reports on the reduction in priority practices by priority countries.

Implementation

In identifying the "priority trading practices" required in Super 301, USTR named the successful conclusion of "...the Uruguay Round of multilateral trade negotiations by December 1990" to be the highest trade liberalization priority. Also, the United States seeks to achieve multilateral agricultural reform in these negotiations. In fact, USTR identified, in its "Super 301" report of trading practices, the specific agricultural practices that the United States wants to negotiate with its trading partners:

> European Community variable levies on imports of grains, sugar, dairy products, beef, poultry, eggs, pork and processed products made from these commodities, which afford protection to European producers of these products, adversely affecting U.S. exports to the EC.
>
> European Community agricultural export subsidies. The EC grants export "restitutions" on a wide range of agricultural products including wheat, wheat flour, beef, dairy products, poultry, and certain fruits, as well as some processed products. The result of such subsidies is downward pressure on world agricultural prices and unfair competition for U.S. exporters in third country markets.
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> Japan's imports of rice. Japan's strict prohibition on the import of rice adversely affects U.S. rice producers and exporters and is unjustifiable in light of Japan's GATT obligations.[31]

Changes in these practices will be pursued through Uruguay Round negotiations. Multilateral negotiations are sought because problems over agricultural subsidies are difficult to solve absent broad multilateral agreements. According to USTR, any government that agrees to eliminate subsidies in a bilateral agreement places its producers at a competitive disadvantage with respect to countries that have not assumed a similar obligation.[32]

Besides these U.S. priorities in the Uruguay Round agriculture negotiations, the "Super 301" list names agricultural matters in conjunction

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[31] Office of the U.S. Trade Representative. Fact sheet: "Super 301" trade liberalization priorities. May 26, 1989. p. 9

[32] Office of the United States Trade Representative. Fact Sheet: "Super 301" Trade Liberalization Priorities", May 26, 1989. p. 8.

with quantitative import restrictions of Brazil. Brazil is named as having bans, quotas, and restrictive licensing regimes inhibiting imports of over 1,000 items including manufactured and agricultural products (meat and dairy products were mentioned).

In the preparation of the National Trade Estimate Report, the USTR invited the public to comment on practices that should be considered in identifying priority practices under the "Super 301" provision.[33] Comments included: "the major barriers and trade distorting practices the elimination of which are likely to have the most significant potential to increase U.S. exports, either directly or through the establishment of a beneficial precedent." The public comment period ran from March 2, 1989 through March 24, 1989.

Out of a total of 46 groups filing their comments, 19 (or 41 percent) were agricultural groups. Most of these (13) complained of Korean high import tariffs and quotas on their products.

Reactions by Foreign Governments

The Super 301 statute already appears to be a major factor in changing U.S. agricultural product access to Korean markets. Korean and U.S. officials agreed to eliminate over 2 years, in three stages, tariffs on 62 products of interest to the United States; to reduce immediately tariffs on almonds, raisins, cherries, pistachios, alfalfa, avocados, and particle-board. Korea also promised to give more information about its import process, and liberalize some nontariff barriers such as the blending requirement on frozen concentrate orange juice imports. USTR claims that this agreement with Korea shows that bilateral negotiations on particular practices complement the multilateral negotiations on generic trading rules. Taiwan also agreed to changes in restrictive import practices on agricultural imports.

Other trading partners, notably Japan and the EC, complained that the "Super 301" process has a tendency to distract from the current multilateral trade negotiations, and even undermine efforts toward solutions to trading problems.[34]

Several U.S. trading partners see the Section 301 process as a threat to their own trading systems. The European Community (EC) loudly protested its use over the years. In fact, to "fight fire with fire", the EC released just days after USTR's report, the EC Report on U.S. Trade Barriers. The report names almost 40 U.S. trade barriers, (export subsidies, customs barriers, quantitative restrictions, etc.) including U.S. alleged restrictive practices in agriculture. In the announcement releasing its report, the EC Commission expressed its concern about the use of unilateral retaliatory measures

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[33]Federal Register, Vol. 54, No. 40, Thursday, March 2, 1989. p. 8867

[34]European Community Office of Press and Public Affairs. E.C. Reacts to U.S. "301" Decision. European Community News. No. 15/89, May 26, 1989.

incompatible with international trading rules.[35] However, some analysts consider the report to be itself retaliatory and a method of pressuring the United States into dropping its more "militant" posture.

Japan, Brazil and India all protested being placed on the "Super 301" list of priority countries that have persistent barriers to U.S. trade. Japanese Prime Minister Uno was quoted as saying that the U.S. move was "extremely regrettable," and that the U.S. trade deficit was caused in part by macroeconomic policies and the huge Federal budget deficit, not by Japanese trade barriers.

One risk is that countries named on the "Super 301" list could retaliate, even before the 301 process requires U.S. retaliation (within 18 months of the beginning of the investigation.) Another risk is that by embarrassing named foreign governments, public opinion could be turned against the United States and ultimately undermine its attempts at trade liberalization. News reports quoted an Indian official as suggesting that India had lost face in being named. The official was reported to have asked, "How can you expect any self-respecting country to (negotiate under this threat?)"[36] In fact, in this Indian election year, it is unlikely that India will substantively negotiate because negotiated trade concessions benefitting the United States would be unpopular politically.

The strongest protest against the "Super 301" action was aired in protests that such a unilateral action undermined the principles of the GATT; critics contended that it meant that trade negotiations were to be conducted on U.S. terms. The ministers at the June 1989 meeting of the Organization of Economic Cooperation and Development (OECD) issued a statement in which they rejected any "tendency towards unilateralism, sectoralism, and managed trade which threatens the multilateral system."[37]

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[35]European Community Office of Press and Public Affairs. E.C. Releases 1989 Report on U.S. Trade Barriers. European Community News. No.13/89, May 3, 1989.

[36] Journal of Commerce. U.S. Trade Warning Baffles India. June 1, 1989.

[37] Hobart Rowen. OECD Nations Offer Veiled Criticism of U.S. Policies. The Washington Post. June 2, 1989. p. F3.

APPENDIX A Agricultural Petitions Investigated by USTR
as of September 6, 1989

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
Canada Egg Quota (301-2)	United Egg Producers and American Farm Bureau Federation filed petitions on July 17 and 21, 1975, alleging that a Canadian quota on the importation of U.S. eggs constituted an unfair trade practice (40 FR 33749).	As a result of bilateral negotiations, Canada approximately doubled its quota for imports of U.S. eggs. USTR terminated the investigation on March 14, 1976 (41 FR 9430).
E.C. Supplementary Levies on Egg Imports (301-3)	Seymour Foods, Inc. filed a petition on Aug. 7, 1975, alleging that changes in the E.C.'s supplementary levies on imports of egg albumin impaired the ability of U.S. exporters to contract for sales in the E.C. (40 FR 34649).	Following informal consultations, supplementary levies were replaced with increased import charges. However, since U.S. exports of egg albumin steadily increased, the Section 301 Committee determined that no further action was necessary. USTR terminated the investigation on July 21, 1980 (45 FR 48758).
E.C. Minimum Import Price & License/Surety Deposit Systems on Canned Fruits, Juices and Vegetables (301-4)	The National Canners Association filed a petition on Sept. 22, 1975, alleging that the E.C.'s minimum import prices and an import license/surety deposit system with respect to canned fruits, juices, and vegetables constituted an unfair trade practice (40 FR 44635).	USTR initiated an investigation and held public hearings on Nov. 17, 1975. Consultations under GATT Art. XXIII:1(c) were held March 29, 1976. A GATT panel was appointed under Art. XXIII:2. As a result of the panel's report, the E.C. discontinued use of minimum import price mechanism. USTR terminated the investigation on Jan. 5, 1979 (44 FR 1504).
E.C. Subsidies of Malt Exports (301-5)	Great Western Malting Company filed a petition on Nov. 13, 1975, alleging E.C. subsidies on malt to third countries (40 FR 54311).	In 1976, the E.C. reduced the subsidy. USTR terminated the investigation on the advice of the Section 301 Committee and with petitioner's agreement on June 19, 1980 (FR 41558).
E.C. Export Subsidies on Wheat Flour (301-6)	Millers' National Federation filed a petition on Dec. 1, 1975, alleging violation by the E.C. of GATT Art. XVI:3 in using export subsidies to gain more than an equitable share of world export trade in wheat flour (40 FR 57249).	USTR initiated an investigation on Dec. 8, 1975. Consultations under GATT Art. XXIII:1 were held in 1977 and 1980, and technical discussions followed in 1981. On Aug. 1, 1980, the President directed USTR to pursue dispute settlement (45 FR 51169). The Subsidies Code dispute settlement process was initiated on Sept. 29, 1981. The Subsidies Code panel (established on Jan. 22, 1982) issued its conclusions on Feb. 24, 1983. The Code Committee considered the panel report on April 22, May 19, June 10, and Nov. 17, 1983. The issues raised by the panel report are the subject of Uruguay Round negotiations.

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
E.C. Variable Levy on Sugar Added to Canned Fruits and Juices (301-7)	The National Canners Association filed a petition on March 30, 1976, alleging that sudden changes in the variable levy assessed on sugars added to canned fruits and juices by the E.C. constitute unjustifiable and unreasonable import restrictions and impair the value of GATT-bound tariff rates to the U.S. (41 FR 15384)	Following consultations during the MTN, the parties reached an agreement on July 11, 1979, which changed the variable levy to a fixed 2% levy on sugar added. USTR terminated the investigation with the advice of the Section 301 Committee and petitioner's agreement on June 18, 1980 (45 FR 41254)
E.C. Livestock Feed Mixing Requirement (301-8)	The National Soybean Processors Association and the American Soybean Association filed a petition on March 30, 1976, alleging that the E.C. requirement that livestock feed be mixed with domestic nonfat milk constituted an unfair trade practice since it displaced other protein sources such as soybeans and cake imported primarily from the U.S. (41 FR 15384)	USTR initiated an investigation and held a public hearing on June 22, 1976. The GATT panel appointed under Art. XXIII 2 met February and March 1977. In the interim, the E.C. terminated its system. USTR terminated the investigation on Jan. 5, 1979 (44 FR 1504)
E.C. Citrus Tariff Preferences for Certain Mediterranean Countries (301-11)	Florida Citrus Commission et. al. filed petitions on Nov. 12, 1976, alleging that the E.C.'s preferential tariffs on orange and grapefruit juices and fresh citrus fruits from certain Mediterranean countries have an adverse effect on U.S. citrus exports to the E.C. (41 FR 52567)	USTR initiated an investigation on Nov. 30, 1976, and held public hearings on Jan. 25, 1977. During the MTN, the U.S. obtained duty reductions on fresh grapefruit only. GATT Art. XXII:1 consultations were held in October 1980, followed by informal discussions. Formal consultations under GATT Art. XXIII:1 were held April 20, 1982. Conciliation efforts in September 1982 failed. On Nov. 2, 1982, the GATT Council agreed to establish a panel. The panel composition and terms of reference of the panel took some months to resolve. The panel met on Oct. 31 and Nov. 29, 1983, and Feb. 13 and Mar. 12, 1984. The factual portion of the panel report was submitted to the parties on Sept. 27. The full report was submitted on Dec. 14, 1984. The GATT Council considered the panel's findings and recommendations on March 12 and April 30, 1985, but the E.C. blocked any action. On April 30, the U.S. considered the dispute settlement concluded. On May 10 USTR held a public hearing on the substance of our recommendations to the President (50 FR 15266). USTR transmitted his recommendation on May 30, and on June 20 the President determined that the E.C. practices deny benefits to the U.S. arising under the GATT, are unreasonable and discriminatory, and constitute a burden on U.S. commerce (50 FR 26143)

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
		Effective July 6, the President imposed a 40% ad valorem duty on pasta products not containing egg; and a 25% ad valorem duty on pasta products containing egg (50 FR 26143). The E.C. reacted by raising duties on lemons and walnuts imported from the U.S., effective July 8. On July 19, USTR announced that in return for the U.S. suspension of increased duties on imported pasta, the E.C. would drop its proposed duty increases, reduce E.C. pasta export subsidies by 45 percent, and take steps to increase access to the E.C. market for U.S. citrus exports by Oct. 31. Because the E.C. did not increase our access to its citrus market by Oct. 31 as promised, the U.S. imposed the substantially higher duties on pasta imported from the E.C. on Nov. 1. The E.C. then counter-retaliated and imposed higher duties on lemons and walnuts imported from the U.S. On August 10, 1986, the U.S. and E.C. reached an agreement that resolved this case. The U.S. obtained tariff concessions from the E.C. on citrus products. In addition, the agreement provides for E.C. tariff concessions on almonds and peanuts, in return for certain U.S. tariff reductions. After negotiating this agreement, both the U.S. and E.C. terminated their retaliatory duties (51 FR 30146). Subsequently the U.S. increased the E.C. cheese quota (52 FR 8439) and the E.C. lowered its tariffs on some products. Authority to reduce U.S. tariffs is included in the Omnibus Trade and Competitiveness Act of 1988, and was implemented by Presidential Proclamation on December 21, 1988. Finally, the U.S. and E.C. agreed to negotiate a prompt settlement to the pasta dispute (see Docket No. 301-25).
E.C. Wheat Export Subsidies (301-16)	Great Plains Wheat, Inc. filed a petition on Nov. 2, 1978, alleging that E.C. export subsidies were enabling exports of wheat from the E.C. to displace U.S. exports in third country markets (43 FR 50935).	USTR held public hearings in February 1979, and consulted with the E.C. in July 1979. Both parties agreed to monitor developments in the wheat trade, exchange information, and consult further to address any problems that might arise. USTR terminated the investigation on Aug. 1, 1980 (45 FR 49428).

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
E.C. Sugar Export Subsidies (301-22)	Great Western Sugar Company filed a petition on Aug. 20, 1981, alleging E.C. violation of GATT Art. XVI and the Subsidies Code in using export subsidies to obtain more than an equitable share of world export trade in sugar (46 FR 49697).	USTR initiated an investigation on Oct. 5, 1981, and held a public hearing on Nov. 4, 1981. The U.S. consulted with the E.C. under Art. 12.3 of Subsidies Code on Feb. 16, 1982. The conciliation phase was completed by April 30, 1982. USTR submitted a recommendation to the President on June 7, 1982. On June 28, 1982, the President directed USTR to continue international efforts to eliminate or reduce E.C. subsidies (47 FR 28361). On July 29, 1987 the petitioners requested that the investigation be reactivated. USTR denied their request, agricultural export subsidies are being addressed in the Uruguay Round negotiations.
E.C. Poultry Export Subsidies (301-23)	The National Broiler Council filed a petition on Sept. 17, 1981, alleging E.C. violation of GATT Art. XVI and the Subsidies Code in using export subsidies that displace U.S. poultry exports to third country markets (46 FR 54831).	USTR initiated an investigation on Oct. 28, 1981. Consultations with the E.C. under Art. 12.3 of the Subsidies Code were held Feb. 16, 1982. On June 11, the U.S. submitted requests for information under Art. 17 of the Code to the E.C. and Brazil. USTR submitted a recommendation to the President on June 28, 1982. On July 12, the President directed expeditious examination of Brazilian subsidies (47 FR 30699). The U.S. informally consulted with Brazil on Aug. 30, 1982, and additionally consulted with the E.C. on Oct. 7, 1982. Formal Art. 12 consultations with Brazil were held April 1, 1983, and the U.S. met again with the E.C. and Brazil on June 23. Since these consultations did not resolve the problem, the U.S. requested conciliation. The Subsidies Code Committee held the first conciliation meeting on Nov. 18, 1983. Conciliation continued on April 4, May 4, June 20, and Oct. 16, 1984. No further action has taken place in the Subsidies Code Committee, agricultural export subsidies are being addressed in the Uruguay Round negotiations.

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
Argentina Hides (301-24)	The National Tanners Council filed a petition on Oct. 9, 1981, alleging breach by Argentina of a U.S.-Argentina hides agreement, and unreasonable restrictions on commerce imposed by Argentine hide export controls (46 FR 59353).	USTR initiated an investigation on Nov. 24, 1981. The U.S. consulted with Argentina on Feb. 23 and April 15, 1982. USTR held a public hearing on Oct. 6, 1982, on a proposed recommendation to the President concerning termination (47 FR 40959). The U.S. terminated the hides agreement effective Oct. 29, 1982, and the President increased the U.S. tariff on leather imports effective Oct. 30 (47 FR 49625). Petitioner withdrew its petition on Nov. 9, 1982. USTR terminated the investigation on Nov. 16, 1982 (47 FR 52989).
E.C. Pasta Export Subsidies (301-25)	The National Pasta Association filed a petition on Oct. 16, 1981, alleging E.C. violation of GATT Art. XVI and the Subsidies Code in using pasta export subsidies, resulting in increased imports into the U.S. (46 FR 59675).	USTR initiated an investigation on Nov. 30, 1981. Beginning on Dec. 2, 1981, the U.S. consulted with the E.C. several times. On March 1, 1982, the U.S. referred this matter to the Subsidies Code Committee for conciliation. The U.S. later requested a dispute settlement panel, and on April 7 the Committee authorized its establishment. The panel began its work on July 12. On July 21, the President directed USTR expeditiously to complete dispute settlement (47 FR 31841). The panel met again on Oct. 8 and issued factual findings on Jan. 20, 1983. At the E.C.'s request, an additional panel meeting was held March 29. The panel report (3-1 in favor of the U.S.) was submitted to the Subsidies Code Committee May 19. The Committee considered the report on June 9 and Nov. 18, but deferred decision on adoption of the report. In 1985 and 1986, the U.S. increased duties on pasta imports in retaliation against the E.C.'s discriminatory citrus tariffs (50 FR 26143, 33711; 51 FR 30146). The E.C. counter-retaliated by raising its duties on lemons and walnuts. (See the Citrus case, Docket No. 301-11.) Under the agreement reached in that case on Aug. 19, 1986, both parties agreed to terminate their retaliatory duties (51 FR 30146) and to settle the pasta dispute through prompt, good faith negotiations.

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint/	Disposition or Present Status
		A tentative agreement was reached on Aug. 5, 1987, under which the E.C. agreed to reduce its pasta export subsidies by 27.5%, which is intended to eliminate all export subsidies on half of the pasta exported to the U.S. The Agreement was signed Sept. 15, 1987. On Sept. 30, 1987, the President proclaimed that the Customs Service shall exclude from entry into the U.S. any E.C. pasta unless accompanied by appropriate documentation determined by USTR to be necessary to enforce the Agreement (52 FR 36897).
E.C. Canned Fruit Production Subsidies (301-26)	The California Cling Peach Advisory Board et al. filed a petition on Oct. 23, 1981, alleging violation by the E.C. of GATT Art. XVI in granting production subsidies on E.C. member states' canned peaches, canned pears, and raisins, that displace sales of non-E.C. products within the E.C. and impair tariff bindings on those products (46 FR 61358).	USTR initiated an investigation on Dec. 10, 1981. The U.S. consulted with the E.C. under GATT Art. XXIII.1 on Feb. 25, 1982. The U.S. requested a dispute settlement panel under Art. XXIII.2 on March 31, 1982. On Aug. 17, 1982, the President directed USTR to expedite dispute settlement (47 FR 36403). The panel met on Sept. 29 and Oct. 29, 1982. The panel report was submitted to the U.S. and E.C. on Nov. 21, 1983. The panel met again with the parties on Feb. 27, 1984. A revised panel report was submitted to both parties on April 27, 1984. An additional panel meeting was held on June 28. A final panel report was issued on July 20. The U.S. requested adoption of the panel report in GATT Council meetings of April 30, May 29, June 5, and July 16, but Council action was deferred because the E.C. was not yet ready to act on the report. On Sept. 7, 1985, the President directed USTR to recommend retaliation unless this case was resolved by Dec. 1, 1985. In December 1985 the U.S. and the E.C. reached a settlement under which, in addition to subsidy reductions already implemented on canned pears, the E.C. agreed to phase out processing subsidies for canned peaches. In October and November 1988 USTR consulted with the E.C. regarding its failure to fully implement the settlement agreement. Technical talks continued in 1989 regarding E.C. calculation of its subsidies, and the matter was raised at Ministerial level on February 18, 1989. Since the matter remained unresolved as of May 1989, a new investigation was initiated. See Docket 301-71.

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
Brazil Soybean Oil and Meal Subsidies (301-40)	The National Soybean Processors Association filed a petition on April 16, 1983, alleging that the governments of Argentina, Brazil, Canada, Malaysia, Portugal and Spain engage in unfair practices, including export and production subsidies and quantitative restrictions that restrict U.S. exports of soybean oil and meal (48 FR 23947).	On May 23, 1983, USTR initiated an investigation involving Brazil, Portugal, and Spain. USTR held a public hearing on June 29 and 30. The U.S. and Brazil consulted under Art. 12 of the Subsidies Code on Nov. 21. USTR submitted a recommendation to the President on Jan. 23, 1984, on Feb. 13, the President directed USTR to pursue dispute settlement procedures under the Subsidies Code (49 FR 5915). The U.S. has requested additional consultations.
Portugal Soybean Oil and Meal Subsidies (301-41)	See 301-40.	The U.S. and Portugal consulted under GATT Art. XXII on Nov. 29, 1983. In June 1984, Portugal began lifting its restrictions on soymeal imports.
Spain Soybean Oil and Meal Subsidies (301-42)	See 301-40.	The U.S. and Spain consulted under GATT Art. XXII on Dec. 1, 1983.
Taiwan Rice Export Subsidies (301-43)	The Rice Millers Association filed a petition on July 13, 1983, which it withdrew on Aug. 26. It refiled on Sept. 29, 1983, alleging that Taiwan subsidizes exports of rice that restrict U.S. exports and burden the U.S. support program (48 FR 56289).	On Oct. 11, 1983, USTR initiated an investigation. Consultations were held Dec. 8-9, 1983, and Jan. 17-18 and Feb. 20-22, 1984. Based on an understanding reached during those discussions providing for limits on subsidized rice exports from Taiwan, petitioner withdrew its petition on March 9, 1984, and USTR terminated the investigation on March 22 (49 FR 10761).
Argentina Soybeans and Soybean Products (301-53)	The National Soybean Processors Association filed a petition on April 4, 1986, alleging that the differential in Argentine export taxes (higher for soybeans than for soybean products) provides Argentine crushers with an unfair cost advantage that burdens U.S. exports in third-country markets.	USTR initiated an investigation on April 25, 1986 (51 FR 16764). Following bilateral consultations with Argentina, the President suspended this investigation on May 14, 1987, based upon Argentina's assurance that it planned to eliminate these export taxes and thus any differential (52 FR 18685). In February 1988, Argentina reduced the export tax differential by 3 percent. However, on July 29, 1988, Argentina established a tax rebate on oil and meal exports to third countries which subsidize these products. Hence, consultations with Argentina resumed in August 1988. The Argentine Government provided only a few rebates under this scheme before it was suspended in December 1988. USTR continues to consult with Argentina, which is considering other options to aid its soybean crushing and exporting industry.

APPENDIX A. Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
E.C. Enlargement (301-54)	On March 31, 1986, the President announced his intention to (1) impose quotas on E.C. products if the E.C. did not remove certain quantitative restrictions on oilseeds and grains in Portugal, and (2) increase tariffs on E.C. products if the E.C. did not provide compensation for U.S. losses resulting from the E.C.'s imposition of variable levies on corn and sorghum imports into Spain in breach of prior tariff commitments.	On May 15, 1986, the President imposed quotas on E.C. imports in response to the E.C.'s quantitative restrictions in Portugal (51 FR 18294). On Oct. 14, 1987, the level of these quota restrictions was increased to avoid a more damaging effect on E.C. trade than is warranted by the current operation of the E.C. restrictions in Portugal (52 FR 38167). On July 2, 1986, an interim solution was reached with the E.C. with regard to the import levy restrictions in Spain. That solution provided that any shortfall in U.S. corn, sorghum, and corn gluten feed exports to Spain below a monthly E.C. average of 234,000 metric tons through the remainder of 1986 would be compensated for through reduced import levy quotas in the E.C. On Dec. 30, 1986, the U.S. announced that unless the E.C. agreed to compensate the U.S. satisfactorily by the end of January for $400 million in lost corn and sorghum exports to Spain, the President would be compelled to impose duties of 200% ad valorem on imports into the U.S. of certain E.C. cheeses, ham, carrots, endive, white wine, brandy and gin--accounting for $400 million in E.C. exports to the U.S. The President proclaimed these tariff increases on Jan. 21, 1987, to take effect Jan. 30 (52 FR 2663). On Jan. 30, 1987, the U.S. and E.C. settled this case. The E.C. agreed to ensure annual imports of corn and sorghum in Spain of 2 million and 300,000 metric tons, respectively. It also agreed to rescind its requirement in Portugal that 15 percent of the Portuguese grain market (about 400,000 metric tons) be reserved for sales from E.C. member countries. It further agreed to reduce duties on 26 other products (including plywood, apple and cranberry juices, and certain aluminum products), and to extend all current E.C. tariff bindings to Spain and Portugal. In light of these developments, the Trade Representative suspended the increased duties proclaimed Jan. 21, 1987 (52 FR 3523).

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
Taiwan Beer, Wine & Tobacco (301-57)	On Oct. 27, 1986, the President determined that [illegible] policies and practices of Taiwan regarding the distribution and sale of U.S. beer, wine, and tobacco products in Taiwan are actionable under Section 301. He decided to take proportional counter measures so long as Taiwan continues these practices, and directed the Trade Representative to propose appropriate and feasible actions (51 FR 39629)	On Dec. 5, 1986, Taiwan agreed to cease these practices. As a result, USTR announced that no retaliatory action would be proposed as previously directed by the President (51 FR 44958)
India Almonds (301-59)	The California Almond Growers Exchange filed a petition on Jan. 6, 1987, alleging that India's licensing requirements and steep tariffs on almonds are actionable under section 301.	On Feb. 20, 1987, USTR initiated an investigation and requested consultations with India (52 FR 6412 and 7057). The U.S. consulted with India under GATT Art. XXIII.1 in June and September. USTR requested the establishment of a panel under Art. XXIII.2 at the GATT Councils in July, October and November. The U.S. also raised almonds issues in the full consultations with India held in the GATT Balance of Payments Committee in October. In November 1987, the GATT Council agreed to the establishment of a panel. In May 1988, a satisfactory bilateral settlement was reached and USTR terminated the investigation (53 FR 21757). The Indian Government established a separate quota for almonds, which increases access to that market, to the satisfaction of U.S. industry. Moreover, India agreed to eliminate the quota in three years if its balance of payment position improves as specified in the Agreement. India also reduced and bound its tariff for shelled almonds and bound its tariff on unshelled almonds.
E.C. Third Country Meat Directive (301-60)	On July 14, 1987, the American Meat Institute, U.S. Meat Export Federation, American Farm Bureau Federation, National Pork Producers Council and National Cattlemen's Association filed a petition complaining of the E.C.'s Third Country Meat Directive as a violation of GATT Art. III and an unjustifiable, unreasonable or discriminatory practice that burdens U.S. commerce.	On July 22, 1987, USTR initiated an investigation and requested consultations with the E.C. (52 FR 28223). The U.S. consulted with the E.C. twice under GATT Art. XXIII.1, in September and November, 1987. USTR requested the establishment of a panel at the GATT Councils in October and November, but the E.C. blocked it. The E.C. acquiesced to that request at the December GATT Council. Since then, the E.C. has taken steps to provide access for a number of U.S. meat packers.

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
E.C. Hormones (301-62)	On Nov. 25, 1987, the President announced his intention to raise customs duties to a prohibitive level on as much as $100 million in E.C. exports to the U.S. This action was in response to the implementation scheduled for Jan. 1, 1988 of the Animal Hormone Directive. Without valid scientific evidence, this directive would ban imports of meat produced from animals treated with growth hormones. However, the President said he would suspend increased duties if E.C. member states continued to allow such imports for a 12-month transition period.	On Dec. 24, on his own motion, the President proclaimed but immediately suspended increased duties on specified products of the E.C. (52 FR 49131), pending E.C. implementation of its Directive. He delegated authority to modify, suspend or terminate the increased duties (including to terminate the suspension of such increased duties) to the Trade Representative. The E.C. implemented its directive on January 1, 1989. In response, the USTR terminated the suspension of the increased duties, effective January 1, 1989, with some modifications (53 FR 53115). The U.S. and E.C. agreed on January 12 to allow a grace period for goods exported, or meat certified for export, prior to January 1, if they entered before February 1 (54 FR 3032). On February 18, the U.S. and E.C. established a task force of high level government officials to seek a resolution to the hormones dispute by May 4, 1989. In May, the task force's mandate was extended and its work continues.
E.C. Oilseeds (301-63)	On Dec. 16, 1987, the American Soybean Association filed a petition complaining that the E.C.'s policies and practices relating to oilseeds and oilseed substitutes nullified and impaired benefits accruing to the United States under the GATT and, specifically, are inconsistent with a zero tariff binding agreed to by the E.C. ASA alleged that the practices also are unjustifiable, unreasonable, and burden or restrict U.S. commerce.	On Jan. 5, 1988, USTR initiated an investigation and requested consultations with the E.C. (53 FR 984). The U.S. consulted with the E.C. several times, both informally and formally, under GATT Art. XXIII:1. The E.C. blocked the U.S. request for a panel at the May 1988 GATT Council, but acquiesced at the June 1988 Council. However, the E.C. delayed composition of the panel for several months with a number of procedural maneuvers. A panel was finally formed and the first oral arguments heard on June 27, 1989. The panel's briefing is scheduled to end October 1, 1989. On July 5, 1989, USTR determined to delay any action under Section 301 because the panel's formation showed progress was being made in negotiations.
Korea Beef (301-65)	On Feb. 16, 1988, the American Meat Institute filed a petition alleging that the ROK maintains a restrictive licensing system on imports of all bovine meat, in violation of GATT Article XI, which is unjustifiable, unreasonable, and burdens or restricts U.S. commerce.	On March 18, 1988, USTR initiated an investigation (53 FR 10995). The U.S. had already consulted with the ROK under GATT Art. XXIII:1. On May 4, 1988, GATT Council established a panel under Art. XXIII:2. Australia was also authorized a panel on the same matter, so consultations on panel selection included coordination between two panels. The first panel meeting was November 28, 1988, the second meeting was January 20, 1989.

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
Japan Citrus (301-66)	On May 6, 1988, Florida Citrus Mutual, et al. filed a petition alleging that Japan's import quotas on fresh oranges and orange juice contravene GATT Article XI, and their domestic content mixing requirements violate Art. III 5.	On May 25, 1988, USTR initiated an investigation. The U.S. had already consulted with Japan under GATT Article XXIII 1, and a panel under Art. XXIII 2 had been authorized by GATT Council on May 4, 1988. Intensive settlement negotiations followed, and on July 5, 1988, a bilateral agreement was reached to settle the issue. Among other issues settled, import quotas on fresh oranges will end April 1, 1991, and on April 1, 1992 for orange juice, the blending requirement will be phased out in 1988-89 and eliminated as of April 1, 1990. Based upon this agreement, the citrus industry withdrew its petition and USTR terminated the investigation on July 5, 1988 (53 FR 25714).
Korea Wine (301-67)	On April 27, 1988, the Wine Institute and the Association of American Vintners filed a petition complaining of policies and practices of the Korean Government that unreasonably deny access to the Korean wine market and are a burden or restriction on U.S. commerce.	On June 11, 1988, USTR initiated an investigation (53 FR 22607) and requested consultations with the Korean Government. Consultations were held October 11-12 in Washington and October 25 in Seoul. Further consultations finally resulted in an agreement, reached on January 18, 1989, in which Korea agreed to provide foreign manufacturers of wine and wine products non-discriminatory and equitable access to the Korean market. The investigation was terminated on January 18, 1989.

APPENDIX A Agricultural Petitions Investigated by USTR, continued

Country and Product Concerned (Assigned Docket Investigation No.)	Complaint	Disposition or Present Status
EC Canned Fruit (301-71)	On May 8, 1989, USTR self-initiated an investigation regarding compliance by the E.C. with a trade agreement (see Docket 301-26) in which the E.C. agreed to limit processing subsidies granted on canned fruit.	USTR requested public comment and on June 9, 1989 held a public hearing (54 FR 20219) on whether the EC practice is actionable under Section 301. The hearing also asked whether the E.C. practice violates a trade agreement; and if so, the appropriateness of subjecting certain E.C. products to increased U.S. tariffs. On June 30, 1989, USTR announced a tentative solution involving 1) E.C. lowering subsidy rates for canned peaches and pears to comply with the 1985 agreement, 2) U.S. and E.C. officials clarified terms of the 1985 agreement; and 3) E.C. promised to limit subsidies in the future. USTR then agreed to suspend consideration of any action until October 1989.
Brazil Import Licensing (301-73)	On June 16, 1989, USTR initiated an investigation of certain import restrictions maintained by the Brazilian Government including its "suspended list", company and sector-specific import quotas, and lack of transparency of its import licensing regime. Included were licenses on beef and dairy imports. This investigation resulted from identification of this practice as a "priority practice" under the "Super 301" provision in the Trade Act of 1974, as amended.	USTR requested public comments on Brazil's policies and practices, and on the amount of burden or restriction on U.S. commerce caused by these practices (54 FR 26135).

Source: Office of the United States Trade Representative. Section 301 Table of Cases. June 22, 1989. Released on June 28, 1989.

APPENDIX B Agricultural Petitions Not Investigated by USTR
as of August 29, 1989

Country and Product Concerned (Assigned Petition No.)	Complaint	Disposition or Present Status
Venezuela - Prunes (P-1)	On February 22, 1980, Diamond Sunsweet, Inc., filed a petition complaining of a unilateral decision taken by the Government of Venezuela on 11/06/79 to increase its ad valorem duty on dried prunes. It withdrew its petition on 04/01/80 for a period of 30 days to allow USTR to continue negotiations. The petition was refiled on 05/30/80 since an acceptable solution had not been reached.	On July 16, 1980, Diamond Sunsweet, Inc., withdrew its petition. According to Harold Jackson, President of Sunsweet Commodities, Diamond Sunsweet, Inc. withdrew its petition after Venezuela promised to lower its duties. Duties dropped on prunes in August of 1980.
Argentina - Sunflower Oil & Meal (P-4)	On September 28, 1983, National Sunflower Association filed a petition asserting that Argentina's crushing subsidy constitutes an unreasonable restriction on U.S. commerce and is inconsistent with the GATT.	On November 17, 1983, National Sunflower Association withdrew its petition. According the Larry Kleingartner, Executive Director of the National Sunflower Association, his organization withdrew its petition after USTR promised to discuss the problem with Argentinean officials.
European Community - Raisins (P-5)	On July 24, 1984, the Sun Diamond Growers of California filed a petition complaining of the E.C.'s minimum import price scheme on raisins. The scheme granted price, production, and storage subsidies on EC member states raisins. These subsidies cause the displacement of sales of non-EC products within the EC and impair tariff bindings on those products.	On August 2, 1984 Sun Diamond Growers of California withdrew its petition because it was assured that the complaint would reach a resolution under an earlier petition. (See Appendix B, docket no. 301-26)
European Community, Netherlands, Colombia, Mexico, Guatemala, Dominican Republic, Costa Rica, Israel - Fresh Cut Roses (P-6)	On August 5, 1985, Roses Incorporated filed a petition alleging that the regulations, acts, policies and practices of the European Community, Netherlands, Colombia, Mexico, Guatemala, Dominican Republic, Costa Rica, and Israel with regard to international trade in fresh cut roses are unjustifiable, unreasonable, and discriminatory and/or are inconsistent with or otherwise deny to the U.S. benefits under the GATT.	On September 19, 1985, USTR decided not to initiate an investigation. The reasons for this determination were based on the following factors: (1) several of the alleged unfair practices named in the petition had been terminated or were found not to exist; (2) several of the practices had already been dealt with in the context of countervailing duty investigations; (3) many of the allegations of unfair practices were not sufficiently supported by information in the petition; and (4) the petition did not, with respect to several allegations, adequately demonstrate the burden on U.S. commerce or the causal link between the alleged practice and effect. (50 FR 40250)

APPENDIX B. Agricultural Petitions Not Investigated by USTR, continued

Country and Product Concerned (Assigned Petition No.)	Complaint	Disposition or Present Status
Argentina - Soybeans (P-9)	On December 13, 1985, the National Soybean Processors Association filed a petition asserting that Argentina's differential export tax system is an unreasonable practice within the meaning of section 301 because it conveys an artificial and unfair cost advantage to soybean crushing firms in Argentina and thus constitutes a production subsidy.	On January 27, 1986, the National Soybean Processors Association withdrew its petition in part because, according to a NSPA spokesman, the NSPA were discouraged by U.S. officials concerned about destabilizing Argentina's Government at the time, and because U.S. officials did not think, at the time, that the United States could win its arguments before a GATT panel.
Japan - Rice (P-14)	On September 10, 1986, the Rice Millers Association filed a petition under section 302 for relief from the effect of Japanese market barriers to U.S. rice exports.	On October 23, 1986, USTR decided not to initiate an investigation, choosing instead to pursue the matter in the Uruguay Round of multilateral trade negotiations. (51 FR 39731)
Japan - Rice (P-22)	On September 14, 1988, the Rice Council for Market Development and the Rice Millers' Association filed a petition complaining that Japan's virtual prohibition on the importation of rice violates the GATT and denies benefits to the U.S. under the GATT.	On October 28, 1988, the USTR decided not to initiate an investigation, arguing that the Uruguay Round of multilateral trade negotiations provides a more effective way to open the Japanese rice market to U.S. exports. (53 FR 44970)

Source: Office of the United States Trade Representative. Section 301 Table of Cases. February 13, 1989.

STATEMENT OF THE SWEETENER USERS ASSOCIATION

The Sweetener Users Association wishes to present its views on the Administration's efforts to extend international trading rules to agriculture in the Uruguay Round of GATT negotiations.

The Association represents industrial users of sugar and other sweeteners. Industrial sweetener users have consistently sought a more market-oriented sugar program, with reduced price support loan rates and greater access to efficiently produced imported sugar.

We support the U.S. objective in the Uruguay Round to eliminate subsidies and other barriers to international trade. To this end, the Association believes that it is imperative that the United States aggressively negotiate with our trading partners to obtain free trade for sweeteners and sweetened products.

The U.S. sugar program is an excellent example of the problems that arise due to excessive protectionism. Recent events have only strengthened our belief that sugar programs here and abroad must be changed in the current GATT negotiations. The Association recognizes that all countries must cooperate to realize mutually beneficial free trade in sugar. However, we believe that it is incumbent upon the United States to review its own sugar policy and to begin to reform that policy to bring it into conformance with our GATT obligations and to make it more consistent with the market-oriented approach that directs other U.S. agricultural programs.

All segments of the U.S. sweetener industry, including domestic producers, agree that if all sweetener trade barriers around the world were eliminated, the economic impact on the United States would be favorable. World sugar prices would be somewhat higher, but still below current U.S. prices. Most of the domestic sugar industry is efficient enough to compete effectively in such an environment. American producers, consumers, and industrial users are united in their belief that the net benefits of free world trade in sweeteners to the United States would be significant.

While the objective of eliminating world sweetener trade barriers has been universally endorsed, one must be realistic. Elimination of all barriers in the near term is not practical and will probably prove to be elusive in the long run as well. A more likely result is that the United States and other countries will dramatically reduce the most objectionable trade barriers over a number of years.

U.S. SUGAR QUOTAS AMONG THE MOST EGREGIOUS

The United States has been in the forefront of efforts to eliminate world trade barriers. This stance has been driven by the deep-seated belief that all countries benefit from trade liberalization even though particular industries or sectors within each country may initially be adversely affected.

Despite its longstanding advocacy of freer world trade, the United States maintains a variety of protectionist practices. One of the most egregious import regimes is the restrictive quota on sugar and certain sugar-containing products created to support internal sugar prices at multiples above world sugar prices.

The United States is, of course, not alone in operating a protectionist sugar program. But the level of support enjoyed by U.S. sugar producers expressed in terms of the Producer Subsidy Equivalent (PSE) is extraordinarily high. Sugar had the highest PSE of any U.S. commodity during the 1982–86 period. Over 50 percent of the revenue received by U.S. sugar producers was attributable to the government sugar program—a level comparable to the worst examples of protectionism in Canada, Japan and the European Community.

While most countries support their sugar industries in some fashion, the degree of assistance varies markedly. However, in recent years the U.S. sugar program has become one of the most distortive in the world, as it has cut imports of sugar from 39 trading partners by 75 percent.

U.S. SUGAR QUOTAS INCONSISTENT WITH INTERNATIONAL OBLIGATIONS

We support the Administration's goal in the Uruguay Round to obtain an agriculture agreement which would require all GATT members to convert import quotas to tariffs and to make substantial progressive reductions in the levels of protection and support. To ease of transition from non-tariff barriers to tariffs only, the Administration has proposed a tariff-rate quota to be used during the transition period. The Sweetener Users Association is eager to entertain this approach, but simply needs more precise information before a definitive position on the tariff-rate quota for sugar can be formulated.

While the Sweetener Users Association applauds the long-term goals espoused by the Administration, we note that a recent GATT panel decision requires the U.S.

government either to modify or increase substantially the sugar import quota as soon as possible—regardless of the outcome of the Uruguay Round talks.

The GATT Council held that the current U.S. sugar import quota could not be justified under either GATT rules or any special exceptions. Accordingly, the United States must respond by making the import quota and sugar program consistent with U.S. obligations under the GATT. Consultations between the United States and the Australian government have already begun. In order to satisfy the Australians' complaint in bringing the U.S. sugar program into conformance with the GATT, the United States has an overriding obligation to restore the level of sugar imports to some proportion of the previous representative period.

U.S. SUGAR QUOTAS REQUIRE IMMEDIATE ACTION

The Sweetener Users Association supports the long-term goal to remove all impediments to trade in agriculture. The elimination of all tariff and non-tariff measures affecting the sweetener trade is essential. However, immediate changes must be made to the sugar program in order to comply with the recent GATT ruling that U.S. import quotas on sugar are inconsistent with our international obligations.

Problems associated with the U.S. sugar program did not appear overnight. Thus, it is believed that any effort to restore sugar imports must be done gradually. The Sweetener Users Association recommends that the Congress and the Administration consider a transitional approach to resolving the GATT complaint. We recommend that the support price for domestic cane and beet sugar should be reduced gradually, while simultaneously increasing the import quota.

The process of reforming our nation's sugar program must be started as quickly as possible, since the U.S. sugar policy is a poor example to set while the United States is attempting to negotiate a more liberal trading system for both agriculture and industry.

We thank you for your attention to this vital issue.

Statement of Welch Foods, Inc.

(SUBMITTED BY WILLIAM C. HEWINS, VICE PRESIDENT)

I. INTRODUCTION

This statement is submitted on behalf of Welch Foods Inc. (hereinafter "Welch's") pursuant to the press release No. H-49 from the Senate Committee on Finance, requesting written statements on practices that should be considered with respect to the identification of priority foreign trade practices for elimination by the USTR should the Uruguay Round market access negotiations prove unsuccessful.

Welch's is the processing and marketing subsidiary of the National Grape Co-operative Inc. The approximately 1,500 members of National grow Concord and Niagara grapes on 36,799 acres of vineyards in New York, Pennsylvania, Ohio, Michigan, Arkansas, Missouri and Washington. Welch's products include a variety of fruit juices, juice cocktails, jellies, jams, preserves, juice bars and fruit-flavored carbonated beverages. Total annual production value is in excess of $300 million.

Three divisions of the Company—food store, international and special markets—as well as various licensees sell Welch's products to a wide-range of food outlets in the United States and 30 other countries. Approximately 10% of production was exported during FY'88, valued at approximately $30 million. Chief export outlets include Japan, Hong Kong and the Philippines. Japan is, by far, the largest of these, with total industry exports of grape products valued in excess of $10 million. The expansion of these markets and the creation of new ones has become increasingly essential to the financial health of the Co-operative and the industry in general.

In Administration hearings held to discuss the Uruguay Round proposal for agriculture, Welch's has gone on record in support of the U.S. position. Global trade distortions in the grape product market exist in virtually every major export market, primarily in the form of access restrictions and internal supports. Comprehensive reform can best ensure a lasting competitive role in the global market for U.S. grape products. If such reform can not be achieved quickly, however, Welch's would encourage the Administration and U.S. Congress to rely upon aggressive bilateral measures to secure near-term access liberalization, particularly in Korea, for industries such as ours in continuing need of export expansion.

II. DESCRIPTION OF PRODUCTS OF INTEREST

Welch's is seeking open access to the countries listed in Section III for fruit juices, both in concentrated and single strength forms, for juice cocktails and drinks, and for fruit jams, jellies and preserves. Grape juice, jam and jellies are of particular interest given Welch's ownership by the National Grape Co-operative. A list of the items of interest to Welch's is included as Appendix A.

More details are provided in the following section regarding the barriers which confront Welch's in the markets of interest.

III. FOREIGN MARKETS OF PRIORITY EXPORT INTEREST

This request covers the following markets of priority export interest:

Priority	Trade concern	Estimated impact
A. Most Important:		
Republic of Korea	— Complete ban	Year 1: $5 million
	— Excessive duties	Year 2: $6 million
		Year 3: $7 million
Taiwan	— Excessive duties	Year 1: $0.81 million
	100% juices: 40% duty	Year 2: $0.89 million
	<100% juices: 40% duty	Year 3: $0.98 million
	+ 25% commodity tax	
B. Very Important:		
European Community	— Subsidies	Year 1: $6.80 million
	— Minimum import price	Year 2: $8.80 million
		Year 3: $10.80 million
C. Important:		
Venezuela	— Complete ban	Year 1: $0.18 million
		Year 2: $0.20 million
		Year 3: $0.23 million
Trinidad	— Complete ban	Year 1: $0.14 million
		Year 2: $0.16 million
		Year 3: $0.18 million
Dominican Republic	— Restrictive Import Licensing	Year 1: $0.26 million
		Year 2: $0.30 million
		Year 3: $0.34 million
Colombia	— Complete ban	Year 1: $0.02 million
		Year 2: $0.02 million
		Year 3: $0.03 million
Jamaica	— Confiscatory Duty (95%)	Year 1: $0.04 million
		Year 2: $0.04 million
		Year 3: $0.06 million

IV. DESCRIPTION OF BARRIERS TO FRUIT JUICES AND GRAPE PRODUCTS

A. Republic of Korea Ban and Excessive Duties

The specific barriers on fruit juices and grape products at issue in Korea are much like those encountered by a full range of other U.S. commodity groups that have tried unsuccessfully to build markets in this country.

In Korea, grape products, including juice, juice cocktails, juice drinks, jellies, jams and preserves and certain other fruit juice products have been placed under "restricted" product designation. Although this designation has allowed extremely limited access for some commodities, mainly in the hotel trade and foreign commissaries, even this minimal access has been denied for fruit juice and grape products. All import licensing requests for grape products and fruit juices are denied without justification. Even were the ban to be lifted, market penetration for Welch's products would be limited by a 50% tariff applicable to all grape juice imports and 40% duty on grape jam and grape jelly. Other fruit juices suffer from duties of 30%-50%. Less than 100% juices are subject to a 20% tariff. Welch's asks that both the ban and the tariffs be named national trade policy priorities and targeted for elimination by the USTR, should the Uruguay Round negotiations prove unsuccessful.

B. Taiwanese Excessive Duties

In Taiwan, 100% juices are subject to a 40% ad valorem duty upon importation into the Taiwanese market. This has inhibited the exportation of significant quantities of U.S. grape juices to Taiwan, as local brands are much less expensive.

Fruit juice products containing less than 100% juice are subject to the 40% duty plus a 25% commodity tax. The 65% effective duty rate has inhibited expansion opportunities for the Welch's Orchard line of juice cocktails and the Welch's Juice Cocktail convenience store products. Local brands, including Wei-Chuan, Kuan-Chang and Hey-Song, have been the principal beneficiaries of this duty structure.

C. EEC Subsidies and Minimum Import Price Scheme

The EEC, through a complex system of subsidies and other illegal practices, provides extensive support to European grape growers. Because overproduction of wine has been a chronic problem within the EEC, programs have been established to divert excess grape production from wine into grape juice and other non-alcoholic grape products. These efforts have included direct aid programs to relieve the cost of making European grape must for the manufacture of grape juice, storage aids for grape must, and minimum import prices for grape juice.

The EEC pays aid directly to producers of grape musts and concentrated grape musts for the purpose of making grape juice. Council Regulation No. 822/87 O.J. Eur. Com. No. L84-1. The stated purpose of the aid is to make grape musts and concentrated grape musts produced in the EEC and used for the manufacture of grape juice competitive with grape musts produced outside of the EEC. Indeed, the implementing regulation states that the "economic aim of the aid scheme is to encourage the use, in the manufacture of grape juice, of raw materials of Community origin, rather than imported materials . . . ." Regulation No. 2372/87, O.J. Eur. Comm. No. L216/10. This is a direct subsidy that serves to restrict the sales of U.S. produced grape juice in the EEC.

The EEC's aid scheme also includes advanced payment to producers and processors who store grape juice for long periods of time before it is put up for consumption. In addition, individual members states have also been providing aid for the purpose of storing grape must. Council Decision of 13 July 1987, O.J. Eur. Comm. No. L22/17.

To protect the EEC industry further, Regulation No. 822/87 establishes a minimum import price for grape juice and concentrated grape juice. Any imported juice priced below the reference price is assessed a countervailing charge consisting of the difference between the actual price and the reference price. Minimum import price schemes have been ruled to be GATT-illegal.

The cumulative damage over the past 10 years as a consequence of EEC practices is estimated at $108 million, or 10.8 million cases. These figures were calculated by projecting 25% of the U.S. per capita annual consumption of grape juice, multiplied by the population of the EEC countries. The figure was then halved to reflect the generally lower consumption of juices in Europe and multiplied by 25% to reflect a reasonable U.S. share, given product quality and export share in related markets.

D. Venezuela Ban

Concord Grape Association (CGA) members sold to the Venezuelan market until the government determined to halt the issuance of import licenses for grape juice in FY 1983. The effect of this action on U.S. industry sales was pronounced:

	FY'80	FY'81	FY'82	FY'83	FY'84	FY'85	FY'86	FY'87	FY'88
Value		$16,000	196,000	6,000					
Cases		800	17,600	600					

Source: CGA

Taking FY'82 as the last normal year, the lost export volume through FY'88 totals $1,170,000, or 105,000 cases. This straight-line estimate does not include the growth that might have occurred over this period had market access not been terminated.

E. TRINIDAD BAN

Action similar to the Venezuelan ban has also occurred in Trinidad. U.S. export of grape juice products to Trinidad were growing until import licenses were suspended by the Government of Trinidad in 1986, causing a halt to all U.S. trade.

	FY'80	FY'81	FY'82	FY'83	FY'84	FY'85	FY'86	FY'87	FY'88
Value	$89,000	77,000	141,000	154,000	191,000	136,000	6,000		
Cases	8,600	6,400	10,900	12,500	15,400	10,800	1,000		

Source: CGA

Taking FY'85 as the final normal sales year, lost sales through the end of FY'88 total $402,000 or 31,400 cases. This calculation was performed on a straight-line basis and does not reflect market growth potential.

F. DOMINICAN REPUBLIC IMPORT LICENSES

The Dominican Republic only grants import licenses for grape juice products on an occasional basis, generally to certain supermarket chains for small volumes in conjunction with the holiday season. The erratic issuance of licenses began early in the decade and has served in some years to block access altogether.

	FY'80	FY'81	FY'82	FY'83	FY'84	FY'85	FY'86	FY'87	FY'88
Value	$261,000	66,000	136,000	42,000			123,000	23,000	
Cases	28,700	6,900	12,800	4,000			10,900	2,725	

Source: CGA

The uncertainty surrounding this on-again, off-again protectionism makes it extremely difficult for the U.S. industry to support and develop a meaningful export business.

Taking FY'80 as the last year of normal sales to the Dominican Republic, the export losses, net of the sales that occurred in subsequent years, was $1,698,000 or 192,275 cases.

Duties, when imports are permitted, are 57% on the CIF value. While not technically GATT-illegal, these duties further limit U.S. export when access is permitted.

G. Colombian Ban

INCOMEX, the Colombian governmental agency charged with the granting of import licenses, terminated the issuance of licenses for grape juice in FY 1984. At that time, U.S. grape juice to Colombia ceased being sold.

	FY'80	FY'81	FY'82	FY'83	FY'84	FY'85	FY'86	FY'87	FY'88
Value	$13,000	23,000	14,000	21,000					
Cases	1,900	3,200	1,500	1,900					

Source: CGA

Using 1983 as the reference year, the cost to U.S. exporters of this action is $105,000 or 9,500 cases.

H. JAMAICAN CONFISCATORY DUTY

The Jamaican government assesses a duty on grape juice products of 95% of the CIF value. As a practical matter, this level of duty serves as a ban on market access for U.S. grape juice producers. Only minimal sales can be made. Although high tar-

iffs are not GATT-illegal, the Jamaican rate is clearly an unreasonable restriction on U.S. access.

	FY'80	FY'81	FY'82	FY'83	FY'84	FY'85	FY'86	FY'87	FY'88
Value		$28,000	42,000			6,000		4,000	
Cases		2,200	3,100			1,000		700	

Source: CGA

Taking FY'82 as the reference year, total export losses come to $242,000 or 16,900 cases.

V. ACTION RECOMMENDATIONS

Welch's requests that USTR place heavy pressure on the identified countries in the Uruguay Round market access negotiations to eliminate both their tariff and non-tariff barriers to U.S. fruit products. If these negotiations are unsuccessful, it is requested that USTR use all tools available to it to achieve free access, such as the proposed Super 301 authority strictly for agriculture. The products of concern are presented, with corresponding harmonized system numbers, in Appendix A.

Many of these concerns are currently being raised on a bi-lateral level. Our inclusion of these practices in this submission is in no way intended to discourage the bilateral efforts which may already be underway.

Welch's interest, both bi-laterally and multi-laterally, is to achieve the earliest possible elimination of trade restriction. In some instances, such as Korea, a Super 301 action against all Korean agricultural barriers will provide our Uruguay Round negotiators with useful guidance on how achievable and worthwhile the U.S. agricultural objectives are in the context of the multilateral negotiations.

IV. CONCLUSION

Welch's has supported the past efforts of the U.S. government in its attempts to gain fair and reciprocal access to the Korean, Taiwanese, European and other markets for fruit juices and grape products. Despite the demonstrated fact that strong consumer demand for our products exists in these markets, Welch's has been denied a reasonable opportunity to market its products due to the intransigence and unwillingness of these countries to participate in free and fair trade. This has resulted in opportunity costs to Welch's of tens of millions of dollars, to the direct detriment of our grower owners. The protectionist position being advanced by these foreign governments is unjustified given their minimal output of grapes suitable for juices and spreads and the open access afforded to their products in the U.S. market.

Welch's requests that USTR place heavy pressure on the identified countries in the Uruguay Round market access negotiations to eliminate their tariff and non-tariff barriers to U.S. fruit products. If this pressure is unsuccessful, it is requested that other tools be utilized, such as the proposed Super 301 authority process strictly for agriculture.

Welch's interest in both bilateral and multilateral discussions is to achieve the earliest possible elimination of trade restrictions. The institution of free trade in the markets which currently refuse to permit reasonable access to Welch's products will be of great economic benefit to the Company's approximately 1,500 grower owners, who cultivate land in some of the most economically depressed regions of the United States.

Appendix A.—H.S. NUMBERS OF ITEMS OF INTEREST TO WELCH'S FOR SECTION 310 INCLUSION

	ITEM	H.S. No
No. 1 Priority Items	Grape juice (including grape must)	2009.60.00
	Not concentrated	
	Concentrated	
	Frozen	
	Other	
No. 2 Priority Item	Grape jelly	2007.99.75
No. 3 Priority Item	Grape jam	2007.99.45

Appendix A.—H.S. NUMBERS OF ITEMS OF INTEREST TO WELCH'S FOR SECTION 310 INCLUSION—Continued

	ITEM	H.S. No.
	Mixtures of fruit juices, in bottles, packs or frozen concentrated form, including:	
	Blended Grape Juice Cocktail (Welch's Vineyard Blend)	[1] 2202.90.90
	Blended Apple-White Grape-Pear and Lemon Juice Cocktail (Welch's Harvest Blend).	[1] 2202.90.90
	Blended Apple-Orange-Pineapple Juice Cocktail	[1] 2202.90.90
	Blended Fruit Punch Juice Cocktail	[1] 2202.90.90
	Blended Apple-Grape-Raspberry Juice Cocktail	[1] 2202.90.90
	Blended Cherry-Apple-Grape Juice Cocktail	[1] 2202.90.90
	Blended Apple-Grape Juice Cocktail	[1] 2202.90.90
	Blended Passion Fruit Juice Cocktail	[1] 2202.90.90
	Blended Guava Juice Cocktail	[1] 2202.90.90
	Blended Pineapple-Banana Juice Cocktail	[1] 2202.90.90
	Welchade Grape Drink	[1] 2202.90.90
	Sparkling Apple Cider	2009.70.00
	Frozen Concentrated No Sugar Added Juice Cocktails:	
	Grape	[1] 2202.90.90
	Apple-White Grape	[1] 2202.90.90
	Cranberry	[1] 2202.90.90
	Juice Cocktails in Bottles:	
	Raspberry	[1] 2202.90.90
	Cherry	[1] 2202.90.90
	Grape	[1] 2202.90.90
	Apple	[1] 2202.90.90
	Orange	[1] 2202.90.90
	Apple-Orange-Pineapple	[1] 2202.90.90
	Fruit Harvest Punch	[1] 2202.90.90
	Strawberry Jam and Preserves	2007.99.10
	Raspberry-Apple Jam and Preserves	2007.99.45
	Grape-Apple Jelly	2007.99.75
	Tomato Juice	2009.50.00

[1] Please note that it is the opinion of the International Trade Commission that products containing less than 100% juice would fall under H.S. 2002.90.90.